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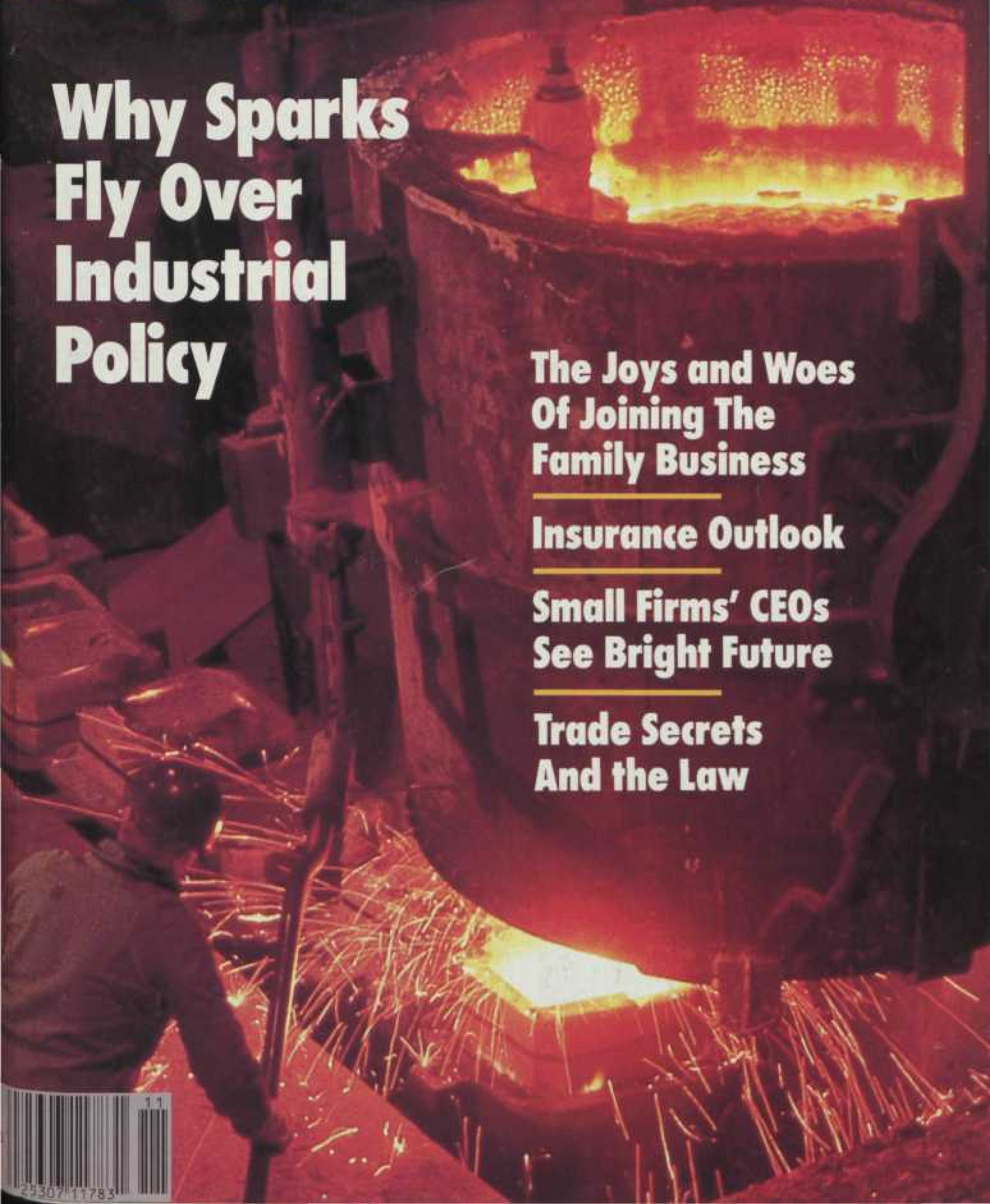

Why Sparks Fly Over Industrial Policy

The Joys and Woes Of Joining The Family Business

Insurance Outlook

Small Firms' CEOs See Bright Future

Trade Secrets And the Law


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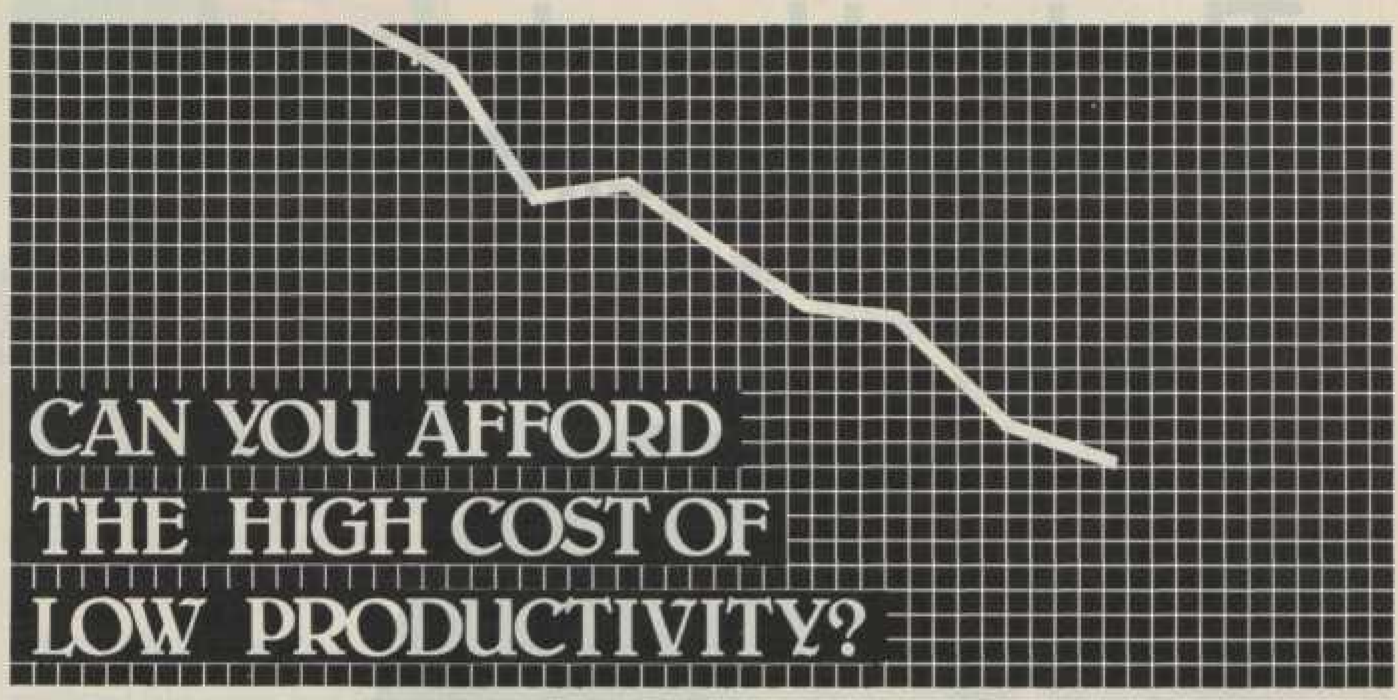

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Move the U.N.? Well, Why Not?

TOWARD THE END OF SEPTEMBER, Ambassador Charles Lichenstein, our No. 2 representative at the United Nations, performed a notable public service. He got our collective minds off such melancholy topics as the Korean airliner, the hostilities in Lebanon and the forensic offenses of Interior Secretary James Watt. Lichenstein gave everybody a good laugh. He suggested—ho, ho—that if the Soviets and their buddies in the U.N. didn't like American hospitality, they could move the whole of the U.N. somewhere else: "My government will put no impediment in your way."

Nobody took the ambassador seriously. After some preliminary eye-rolling, the White House announced stiffly that Lichenstein was voicing no more than a personal opinion. President Reagan had a livelier sense of humor; he suggested mildly that the example of Persephone might be considered—let the U.N. annually spend six months in Moscow, six months in New York. Lichenstein had told the Soviets they could sail "into the sunset." The *New York Daily News* huffily reminded the ambassador that when one is in Manhattan, the sun sets over New Jersey. Columnist Mary McGrory thought the President had a good idea, but she wondered how members of the U.N. General Assembly would survive the wretched dry cleaning services of Moscow: They all would reek of kerosene.

The U.N. has failed abysmally in its primary task: to maintain peace.

Sen. Nancy Landon Kassebaum (R-Kans.), striking a hot iron, won lopsided Senate approval of an amendment whacking half a billion dollars off the U.S. appropriation to the U.N. over the next four years. New York's Mayor Edward Koch termed the U.N. a cesspool. Across the whole broad land columnists and editorial writers whooped with delight at the thought of getting the United Nations out of the United States. But as I read the returns, none of these people really meant it.

WELL, CONFOUND IT, I mean it. Let us cut the comedy for a few minutes and inquire, in all seriousness, if it is not time to let the United Nations go the way of the old League of Nations. This is not to suggest that the U.N. has failed absolutely. Its working agencies have performed usefully in such fields as health, communications and postal services. From time to time, the General Assembly has provided a forum in which the United States could speak for at least a few minutes without interruption. President Reagan seized such an opportunity in his address of September 26 on arms control.

But surely it is clear by this time, after 38 years, that the United Nations has failed abysmally in its primary task, which is to "maintain international peace" and to "suppress acts of aggression." Ralph Kinney Bennett, writing in *Reader's Digest*, counts 140 wars that have erupted around the globe during the life of the U.N. Willy-nilly, nations will act in what they perceive to be their national interest: Argentina will make a grab for the Falklands, the Soviet Union will invade Afghanistan, Iraq and Iran will war on each other, Israel and Syria will tangle over Lebanon. Resolutions of the U.N. are soap bubbles, pretty but empty, signifying nothing.

It is urged in the U.N.'s defense that it provides a place—the only place—where all nations may talk among themselves. But the General Assembly in recent years has been little more than a tower of babble. There are 158 members now. Most of them are rabidly anti-American. Some of them are no larger than small cities: Vanuatu has a population of 113,000, St. Vincent and the Grenadines have 120,000 inhabitants, St. Lucia counts 125,000. The Assembly's rule of one nation, one vote, is a travesty upon the realities of population, wealth and power.

What sense does it make for the United States to keep pouring the taxpayers' dollars into a dumbshow? The figure of Uncle Sam limps pathetically through these marble halls, a target of ridicule and contumely; on the seat of his pants is an invitational sign that says, Kick Me.

As a practical matter, there is no prospect that Congress will ever cut off funds entirely for the U.N. We will continue to be kicked around. But is there any good reason for us to be kicked around in New York? Nothing in the U.N. Charter requires that the organization make its headquarters along the East River. The city of New York may benefit marginally from the presence of the U.N. as a tourist attraction, but this is a flimsy consideration. Of far greater importance is the existence of the U.N. as a marvelously convenient center for Soviet espionage. The Soviet Union maintains a delegation of more than 250 persons; another 250 Soviet nationals are employed by the U.N. in secretarial and administrative positions. Why not, seriously, ship the whole shebang to Moscow? Or to Geneva? Or to Berlin?

Getting the U.S. out of the U.N. may not be politically feasible. Getting the U.N. out of the U.S. is by no means an impossible goal. Ambassador Lichenstein spoke in jest. We ought to consider his thought in earnest. □

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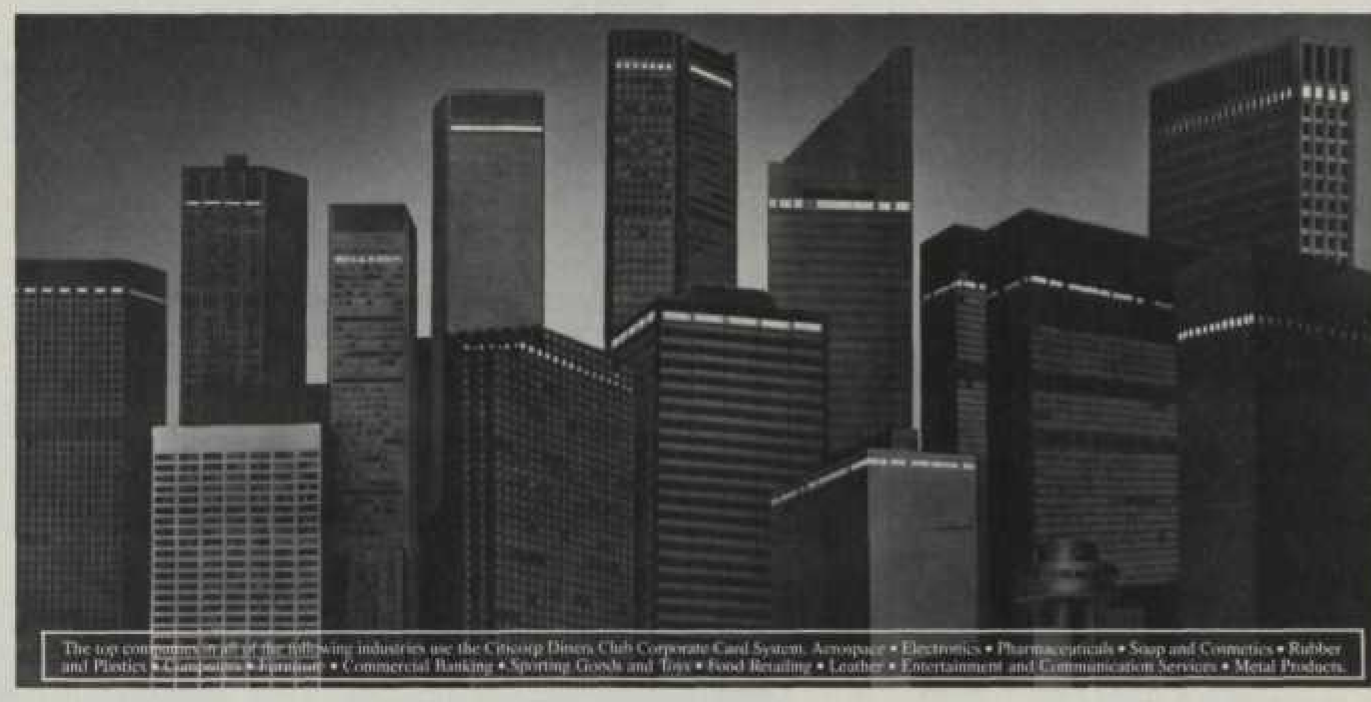
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WASHINGTON LETTER

▶ OUTLOOK ON INTEREST RATES is for continued gradual decline in months ahead. Mid-November meeting of 12-member Federal Open Market Committee could ease credit, reduce short-term interest rates if Fed Chairman Paul Volcker believes recovery is losing too much steam. Over last six months, all important money supply indicators have come under control, interest rates have been trending downward. Volcker tries to reassure credit markets that inflation--under 3 percent for past 12 months by some measures--will not zoom ahead next year through Fed inattention. Some economists warn that inflation may rise next year as surge in money supply over 12 months ending last May is felt.

▶ BUT CONGRESS IS MOVING quickly toward adjournment without taking serious steps to cut government spending, despite deficits' threat to economic recovery. Absence of political resolve to curb spending frustrates conservatives. Recognizing need for new tools to bring spending under control, Reagan administration will support proposed constitutional amendment giving President "line item" veto power over spending bills.

▶ HOUSE DEMOCRATS RESPOND to deficit worries by increasing spending, planning possible $50 billion tax hike in effort to pin blame for deficits on Republicans. Tax hike strategy shaping up is based on lots of small measures to raise taxes while avoiding big publicity-fetching tax hikes. Legislation being drafted behind closed doors will slap higher taxes on savers, businesses. But, in Senate Finance Committee, Chairman Bob Dole (R-Kans.) is having trouble getting majority support for much smaller tax measure. Still, administration aides remain mum on how much in higher taxes they will accept before recommending presidential veto.

▶ MOOD IN SENATE favors avoiding controversy. "It's all over until after the election," laments one member. While social conservatives press for votes on key issues like capital punishment, abortion, tuition tax credits, school prayer, leadership keeps tight rein on floor calendar. Majority Leader Howard Baker (R-Tenn.) hones his reputation of being political pragmatist.

▶ ORGANIZED LABOR UNDER AFL-CIO banner has stepped up campaign to get priority bills through Congress before adjournment. Evidence of new aggressiveness abounds as AFL-CIO flexes its muscle following unprecedented pre-primary endorsement of Walter Mondale for President. For first time in decade, plant-closing legislation opposed by business clears House subcommittee. AFL-CIO's allies push for federal takeover of workers' compensation program, for hike in minimum wage of more than 20 percent, and for plan for business to pick up tab for $2 billion to $6 billion health insurance program for unemployed. To counter loss of million members last year, AFL-CIO is mounting public relations blitz to spruce up image among voters. Harris poll has found organized labor to be among least trusted institutions.

▶ DURING THIS MONTH'S ASIA trip, President Reagan is expected to press Japan to open its financial markets, lift remaining exchange controls, initiate other reforms aimed at increasing value of yen. American manufacturers claim yen is undervalued 20 percent. This makes it harder for United States

companies, like steel producers, to compete against low-priced imports. White House goal is to make yen reflect its true value as currency of world's second largest economy. Over time this will reduce tensions arising from expected $20 billion trade imbalance between Japan, United States.

▶ ENVIRONMENTAL PROTECTION AGENCY boss William Ruckelshaus is racing to meet year-end deadline for coming up with acid rain policy acceptable to Canada and Office of Management and Budget. Secretary of State George Shultz would like to have plan ready when he next meets his Canadian counterpart, Allan MacEachen. Earlier drafts of EPA acid rain policy were rejected by OMB as too expensive. Reagan administration officials would like to remove acid rain as potential campaign issue. Canada wants to reach agreement because acid rain has become sensitive issue among voters important to ruling Liberal Party's re-election hopes.

▶ FEAR OF ANTITRUST violation arising from joint research activities between competitors would be lifted if Congress passes pending legislation granting exemptions from treble damage suits. Proponents argue bill is needed to clarify which cooperative activities are legal. Unsettled issue is type of information to be provided Justice Department in gaining project approval. Sponsors say joint R&D is needed to blunt impact of cooperative research activities by foreign competitors. Bipartisan support for measure makes passage likely.

▶ COMMERCE DEPARTMENT reorganization plan is in trouble. Democrats' amendment to bill setting up new Department of International Trade and Industry includes plan for implementing industrial policy. It is opposed by bill's chief sponsor, Sen. William Roth (R-Del.), and Reagan administration. Amendment by Sen. Thomas Eagleton (D-Mo.) would require joint labor-government-business councils to provide suggestions to industry to help it compete against foreign companies. Business support for new trade department may evaporate unless amendment is removed or watered down. Senators are working to negotiate compromise, since failure to act this year may delay final action until 1985.

▶ COMPREHENSIVE CRIME BILL is nearing final Senate approval with strong bipartisan support. Long-awaited legislation will reform bail bond law, lengthen jail sentences, make it easier for government to seize assets of organized crime operations, take harder stand toward labor racketeering, hike penalties for illegal foreign currency transactions, shift burden to defense for proving insanity. Important to business is provision raising maximum penalty for regulatory violations from $10,000 to $500,000. Hearings on companion bill in House have not been scheduled.

▶ TAX REGULATIONS that discourage civic volunteers from using personal vehicles would be repealed under legislation sponsored by Sen. William Armstrong (R-Colo.). Measure would boost from 9 cents to 20 cents per mile--same rate business gets--allowable deduction for using vehicle in volunteer service. Cost of operating car is estimated to be more than 25 cents per mile. Senate Finance Committee is expected to act favorably on request.

▶ FUND HAS BEEN established by Sen. Alfonse D'Amato (R-N.Y.) to raise money for needy families of 61 Americans aboard Korean airliner shot down by Soviet fighter plane. Entertainer Bob Hope is group's honorary chairman. Tax-deductible contributions can be sent to: The Soviet Massacre Victims Assistance Fund, P.O. Box 007, Washington, D.C. 20013.

▶ PROSPECTIVE "PENSION MILLIONAIRES" in Congress are identified by National Taxpayers' Union. Thirty-six members of Congress could collect more than $1 million in federal pension payments over lifetime if they retire from Congress at end of current term. Ironically, biggest winner, at $1.6 million, would be Sen. Edward Kennedy (D-Mass.), one of richest men in Congress.

Where There's Smoke. . .

As an economist, I found the September "Where I Stand" question on workplace smoking restrictions timely. [See report on page 80 in this issue.] A major argument for banning workplace smoking is the alleged economic burden that smokers place on their employers.

The largest component in calculating the cost to the employer of smoking in the workplace usually is reduced productivity because of time taken on the job when workers pause to smoke. This argument assumes that smokers get more on-the-job leisure time than nonsmokers—a ridiculous idea.

Though some who advocate banning smoking argue that the issue is protection of nonsmokers' rights, it really has far greater implications. Smoking restrictions are a form of employe discrimination. There is no reason to expect smokers to be superior to nonsmokers in actual production. Hiring only nonsmokers is not different from refusing to hire members of any group for reasons unrelated to their ability to perform their jobs.

Whether employes should be told where and when to smoke is a decision that should be based on fact and proper analysis, not on unfounded allegations.

LEWIS C. SOLMON
Associate Dean, Graduate School of Education
University of California at Los Angeles

Laws like the one passed in San Francisco banning smoking if some workers complain are all part of the continuing process of passing too much restrictive legislation. Quite aside from the necessity of many of these laws, it is becoming impossible not to violate some law each day.

JAMES STEWART
New York

The question of forcing employers to ban smoking in the workplace really concerns the rights of the individual.

My father taught me that the other person's rights end where my nose begins. This has been a simple but helpful guide for me when the issues were not always clear.

Employers have the responsibility to provide nonsmoking work areas just as they must provide protection from other harmful substances in the workplace.

FRED A. KINNARD
Sarasota, Fla.

Fighting the good fight

Re: "Government vs. Business Privacy" [September].

I believe Susie White of the Lone Steer restaurant is a kindred spirit because the government intruded into my private business, too. Americans, in

general, and business people, in particular, have been so indifferent about guarding their liberties that the freedom to conduct one's affairs free from government interference has become a thing of the past.

Susie White is displaying valor in her fight against the Labor Department, and she should receive the encouragement and support of all freedom-loving Americans.

She just might be awakening us to the danger that exists within. As a German woman once said: "Never let any violation of human rights go unchallenged, not even one. After you have kept silent two or three times, it is too late to speak."

FRED ALLNUTT
Ellicott City, Md.

How successful?

" 'Most Successful Bank' in Danger" [September] fails to mention that bankers started the International Monetary Fund, that bankers get the interest paid to the fund and that, in fact, the IMF has $44 billion in gold reserves for emergency need.

Why should we cover the mistakes the big bankers made in lending billions of dollars on unsecured loans?

KEITH J. YOUNG
Brooksville Florist
Brooksville, Fla.

Shop around

Before your readers all rush out and retain lawyers to oversee their in-house environmental audits, as was mentioned in "How To Survive an EPA Audit" [August], they would be wise to shop around.

An environmental consulting firm with a staff made up of such professionals as environmental engineers, industrial hygienists and technical specialists can perform comprehensive audits in all environmental areas. In addition, such a firm is better equipped to identify problem areas and provide cost-efficient solutions. These services can often be provided without loss of the attorney-client privilege if the firm retains or works in conjunction with a lawyer.

CYNTHIA J. MANN
Szepatowski Associates
Jamestown, R.I.

The cost of power

The Committee for Energy Awareness ["Don't Pull the Plug on Economic Growth," September] doesn't realize that the total potential for electricity savings in more energy-efficient motors, refrigerators and lights equals the combined capacity of all nuclear and coal power plants being built or planned in the United States.

This is with known technology cost-

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I certify that the statements made by me above are correct and complete.

LEONARD I. RIPPA, business manager

ing about 2 cents per kilowatt-hour saved—a great bargain compared with the 8 to 15 cents per kilowatt-hour required for new coal or nuclear power stations, or even with the 5 to 6 cents per kilowatt-hour charge now paid by most electricity consumers.

DENNIS R. NELSON
Illinois Safe Energy Alliance Coalition
Wheaton, Ill.

Test for leaders?

Re: James J. Kilpatrick's column, "The Conservative Court" [September].

The U.S. Supreme Court has no right to personal opinions as it makes decisions on constitutional issues. Its members' only authority is to obey our ruling contract, the Constitution.

They and other national leaders should be required to pass a test of their knowledge of the Constitution and U.S. history.

SYLVIA MCKILLIPS
Owner, Chuck's Auto Parts
Beloit, Wis.

Kilpatrick's article makes it clear that the much-touted balance of power among the three branches of the United States government needs some more balancing.

The Supreme Court should be required to seek Congress' approval of any new interpretation of the Constitution. That would prevent the Supreme Court justices from, as Kilpatrick says, "put[ting] on their new robes and fly[ing] where they please."

LANCE I. KETHLEY
Oakland

Take heed

Re: "The Pentagon Should Heed This Group" [Editorials, August].

There would be benefits (like bringing down the national deficit) for businesses of all kinds if something were done about the Defense Department's outrageous wastefulness.

Anyone who has known men in the service has learned from them that as far as the Pentagon is concerned, money is no object.

Pentagon officials and military men don't worry about money because they always have it.

MARY SOUZA
Mary Souza Personnel Agency
San Francisco

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Easing the Strain of Withholding

PHOTO: KEN HEINEN

Sen. William Armstrong's bill would permit more small businesses to make withholding payments to IRS on a monthly rather than weekly schedule.

In its zeal to ease the federal government's cash flow problems, the Internal Revenue Service has put added burdens on a lot of small businesses. But relief may be on the way.

The problem is with the IRS-dictated schedule for making withholding payments.

At present, firms with more than $3,000 in monthly withholdings are required to make weekly deposits, and in some cases IRS demands that eight deposits a month be made. Those firms withholding less than $3,000 can make monthly deposits.

Sen. William L. Armstrong (R-Colo.) wants to ease the paper work burden on still more small firms by increasing the threshold for monthly withholding to $5,000.

"This regulatory relief is vital to small businesses, which rely on limited capital to maintain their productivity," Armstrong says. "The frequency of payments they are forced to make to the IRS severely restricts their cash flow, starving them of capital which is critical to keep small businesses in operation."

Armstrong says his bill, S. 1898, was prompted by letters he received from small business owners. He cites this one from Ohio:

"If Social Security taxes are raised in the future, it may put us out of business. It is already a heavy drain on our cash flow per month, and it is very common for us to fall behind in our payments and end up paying ridiculous penalty and interest for doing so. It simply cannot be helped as all of our work is done on credit, and we must rely on the faith of our customers to pay us on time so that we may meet our obligations."

More Federal Help For Exporters

The emphasis on small business continues to grow at the Export-Import Bank, spurred in part by criticism on Capitol Hill that the bank has not been sufficiently oriented toward small business.

Congress has established several programs designed partially or entirely to promote exports by small firms. They include the Export Trading Company Loan Guarantee Program, The Small Manufacturers' Discount Loan Program, the Foreign Credit Insurance Program and the Commercial Bank Guarantee Program.

To stimulate exports, the Eximbank is launching a series of seminars designed to familiarize bankers and small exporters with available loan programs.

The first seminar will be held in Rochester on November 28; followed by Birmingham, December 6; Miami, December 16; and Baltimore, February 9.

And to clear the air, the bank began using on October 1 the Small Business Administration's size guidelines on small firms. In the past the Eximbank used more conservative guidelines in determining which firms were qualified for bank programs that assist the small exporter.

Meanwhile, the Commerce Department has developed profiles designed to help businesses decide where to export their products. These profiles describe the export status of particular U.S. products and industries and give overviews of world markets. For particulars write to the Office of Trade and Information Services, Department of Commerce, P.O. Box 14207, Washington, D.C. 20044, or telephone (202) 377-2432.

A Lighter Tax Load For Small Firms?

Making it easier to start a business and to expand an existing small business—these are the objectives of a new bill in the Senate.

Sen. Lloyd Bentsen (D-Tex.), the bill's author, wants his colleagues to join him in attacking fundamental problems restricting the growth of small business.

"We cannot maintain a healthy, competitive and growing economy unless there is enough capital available for the risk takers and entrepreneurs who have ideas they want to turn into businesses," he says. For starters, the senator proposes to remove the investment tax credit limitation on used equipment. Currently there is a $125,000 ceiling on used equipment eligible for the 10 percent investment tax credit. This will rise to $150,000 in 1985. There is no limitation on new equipment.

The bill, S. 1840, the Small Business Capital Formation and Inventory Simplification Act, would also reduce the maximum effective capital gains tax rate from 20 percent to 10 percent for individuals who hold new issues of stock for at least five years, allow small corporations to claim tax deductions on as much as $250,000 of the dividends they pay, simplify LIFO (last in, first out) inventory accounting rules for small firms, and permit small businesses to use cash accounting methods similar to those now allowed farmers.

Contending that the investment tax credit limitation on used equipment is discriminatory, the senator says it primarily affects small businesses, "which are already hindered by their inability to externally or internally generate the capital necessary to buy equipment." He explains:

"Since small businesses cannot generally afford new machinery, they require the quick passage of tax incentives [that] will enable them to buy the used equipment they need for the expansion of their current business, or the creation of a new enterprise."

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Just How Wide Is the "Income Gap"?

How busy are the nation's farms, factories, stores and offices? Statisticians who compute the nation's gross national product admit they do not know for sure.

A recent Internal Revenue Service estimate says income from lawful activities may be $250 billion higher than what is reported. Actual GNP would be even more if unreported illegal income were added.

The Commerce Department will soon issue a study of the "income gap." The implications of the income gap for policymakers and economists grow with the size of the underground economy.

Everything from monetary policy to unemployment figures to calculation of the nation's spending and savings rates could be affected by the study. Even the unexplained drop in productivity during the Carter presidency might finally be understood.

Robert Parker, an associate director of Commerce's bureau of economic analysis, who is working on the study, says GNP could be up to 3 percent larger than now calculated if estimates by IRS are correct.

The latest IRS estimate is that individuals underpaid taxes by $75.3 billion in 1981. Unreported income accounted for 80 percent of the total, with overreporting of business expenses and personal deductions splitting the balance. Business tax underpayments were estimated at $6.2 billion.

Another $9 billion in taxes was due from illegal activities in 1981.

Training: A New Contract Issue

PHOTO: RICK REINHARD—BLACK STAR

A training program oriented toward jobs in the private sector has replaced CETA.

Training today's work force for tomorrow's jobs will become a more important issue in future contract negotiations between labor and management, says Albert A. Angrisani, assistant Labor secretary for employment and training.

Retraining was a key issue in recent contract settlements in the fast-changing communications and auto industries.

The Labor Department does not now keep track of the inclusion of job retraining as an issue in collective bargaining settlements, but it is planning to do so in the future, Angrisani says.

Labor is already implementing the Job Training Partnership Act. That act created a private sector-oriented job training program, which replaced the Comprehensive Employment and Training Act on October 1.

The new act was designed to help disadvantaged workers and those displaced by permanent changes in the economy.

Unlike past attempts at job training, the new program is closely tailored to actual labor market conditions, providing training in skills that are in demand.

Hope Ahead for Export Industries

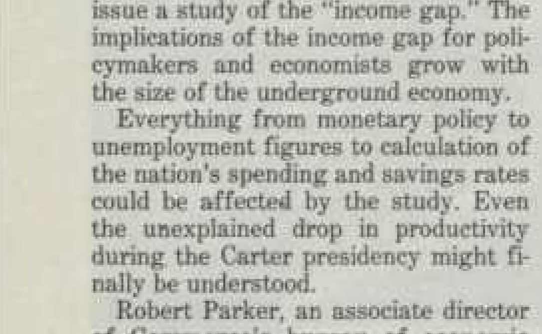

PHOTO: JAMES MASON—BLACK STAR

U.S. exports of heavy machinery were off sharply in the first half of this year, but forecasters see a rebound coming.

Exports should begin to grow by mid-1984 as the economies of the nation's major trading partners recover from the worldwide recession, according to a forecast by the U.S. Chamber of Commerce. Until then, however, growth in some industries that depend on exports will be severely depressed.

Exports are expected to fall 9.2 percent this year in real (inflation-adjusted) terms but grow nearly 2 percent next year.

Industries hardest hit by the depressed demand for U.S. exports are coal, agricultural and construction machinery, machine tools, trucks and buses, and steel. Exports of these products were off 25 percent or more from 1982 levels in the first six months of 1983.

But the situation is not all bleak. Exports of autos, computers, civilian aircraft and precious metals were all up 15 percent or more.

Contributing to the slack demand for U.S. products are the low values of the Japanese yen and the West German mark, which make those countries' exports less expensive. A 10 percent rise in the value of the dollar pushes export prices up 4 percent and causes a 13 percent drop in export volume, according to a New York Federal Reserve Bank study.

The combination of recession and an expensive dollar has resulted in 1.3 million fewer export jobs since 1981, according to the U.S. Chamber.

Business Builds U.S.-Japan Ties

The private sector continues to make progress in efforts to increase mutual understanding between the United States and Japan, even as trade policy problems continue at the official level.

A cultural exhibit, "Close-up of Japan," is under way in San Francisco under the sponsorship of the Japan Society of Northern California and the Mitsui Group, representing the 28 member companies of the vast trading organization.

The exhibit, which will run through November 30, will appear in different parts of the world over the next several years.

Toshikuni Yahiro, president of Mitsui & Company, Ltd., says the project is designed to introduce other nations to Japanese culture.

"Close-up of Japan" includes displays, musical and dramatic presentations, symposia and discussion groups.

In a recent Japan-based event, the U.S. Chamber of Commerce conducted a productivity tour through that country last month.

The trip was designed to help American business people understand and learn from Japanese industrial accomplishments.

Participants studied Japanese production methods, technologies and management approaches. They visited plant sites and conferred with both managers and workers at various industrial installations with high levels of productivity.

The legend of The Pendleton Shirt.

It all began in the Pacific Northwest. At the turn of the century, a pioneer family began weaving blankets, robes and shawls of exceptional quality in Pendleton, Oregon. Many designs were inspired by the motifs of the nearby Nez Perce Indian Nation.

It was an ideal place for such a beginning. Rich grasslands nurtured bands of sheep that grew wool of the highest quality. Soft, pure water was abundant for scouring and dyeing. And the family brought to the task a heritage of weaving which began generations before in England.

Through the years, Pendleton blankets and robes came to be considered a standard of value among settlers and Indians throughout the West.

And so the legend of excellence began.

The family then applied its skills to the creation of 100% virgin wool clothing fabrics. Fine, beautiful fabrics which were then tailored into shirts that loggers, ranchers and sportsmen of the region could wear a lifetime.

Each shirt was "warranted to be a Pendleton," to assure the buyer that the company stood behind its products, in quality and workmanship.

And the legend grew.

Today, four generations later, the family is still making shirts warranted to be Pendletons, to the same standards our forefathers set those many years ago.

We continue to use only pure, virgin wools, selected and graded by hand each shearing season.

We design the patterns, dye the wool, spin the yarn, weave the fabrics.

And then, in over 60 careful steps, these pure virgin wool fabrics are cut and sewn into Pendleton Shirts.

It is this commitment to quality and value in 100% virgin wool, this attention to detail every step, every stitch of the way, that makes a Pendleton Shirt different from every shirt in the world.

It is the commitment we have always made to a Pendleton Shirt. And always will.

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WASH/E/2

ENERGY

There's More Oil—but Is It Enough?

There may be more oil beneath the earth's surface than previously believed. Revising its estimate of the world's oil reserves upward by 12 percent, the U.S. Geological Survey said in a recent study that oil could be consumed at the present rate for about 50 years before it runs out. The reserves were put at 1.273 trillion barrels.

The American Petroleum Institute warns, however, that "the long-term energy outlook for the United States remains unsettled and threatened by complacency." By the end of the century, says the oil companies' research arm, more than three fourths of the United States' domestically produced oil will have to come from fields that have not yet been discovered.

"Despite the oil discoveries of the past decade and the falloff in oil consumption rates for more than a decade," an API report says, "the world has been consuming more oil than it has been finding. There is no evidence this trend is about to reverse itself."

This caution comes when the Petroleum Information Corporation has reported that world oil demand appears to be rising strongly for the first time since the steep decline that followed the 1979 peak in consumption. The problem, API says, is that current adequate supplies "are weakening our resolve to prepare for the future." The World Petroleum Congress says heavy oil use and low discovery rates "may signal a need for most nations to begin planning for alternative sources."

Success in Saving Aviation Fuel

Jet aircraft engineers, working under a National Aeronautics and Space Administration contract, have developed a new technique with the potential to cut the fuel consumption of commercial and military aircraft by as much as 18 percent. The annual savings for commercial aviation could add up to $1.9 billion—and 1.8 billion gallons of jet fuel—by the early 1990s, if engine designs developed by General Electric under the NASA contract are adopted widely in the industry.

PHOTO: JON RILEY—FOLIO

New engine designs could mean an annual saving of 1.8 billion gallons of fuel by the 1990s.

New aircraft technology will reduce nonfuel operating costs by another 10 percent, according to NASA's Lewis Research Center in Cleveland. Begun in 1978, the research project has completed most of its operational tests.

The Energy Efficient Engine Component Development and Integration Program—known as E^3—cost $206 million. It was funded by NASA and GE on a cost-sharing basis, with NASA picking up 90 percent of the tab.

Designs stemming from the E^3 research can be adapted to most aircraft engines and could significantly cut the costs of operating the Pentagon's vast fleet of aircraft.

GE and Pratt & Whitney Aircraft engine makers have already begun incorporating some results of the program into engines they plan to produce in this decade.

AGRICULTURE

Now Even Farms Are Computerized

The American farm's splendid isolation is ending fast as computer terminals spread in rural America. The market research firm of Frost & Sullivan forecasts $428 million in computer and data processing service sales to farmers over the next five years.

Though specialized information will be important to the farmer, the most useful computer packages will be those that help in the "fight against lower revenues and increasing costs," F&S says.

"Templates"—software programs tailored for a variety of accounting tasks—are available as electronic worksheets to help the farmer make decisions affecting crops and livestock. "Dairies are perhaps best suited of all agricultural specialties to computerization," says F&S, "since every aspect of production is closely quantifiable."

The American Farm Bureau Federation's new Acres information program, marketed through state farm bureaus, gives farmers market and government data and trends—some of it updated every 10 minutes—for about $50 a month, plus the cost of the phone call to a master computer.

"We spent the last 30 years maximizing production," says Farm Bureau official Kim Wells. "Now we are nearing the point where the only way for a farmer to make money is to do a better job of management."

Congress Cools On Easier Credit

Congressional efforts to mandate easier credit arrangements for farmers are faltering. Many fear a multibillion-dollar drain on the federal treasury if farmers are allowed to delay repaying debts they owe the government, even as new credit is made available.

Last May the House passed a "recession relief" bill permitting hard-pressed farmers who met certain criteria to postpone installment payments to the Farmers Home Administration. The bill would also make it easier for farmers to get drought and other disaster relief funds, and it would require the Secretary of Agriculture to offer "economic emergency" loans.

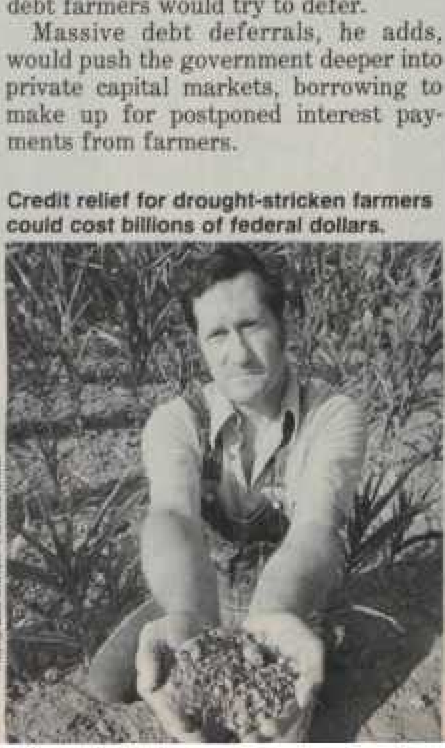
The Senate Agriculture Committee has endorsed a similar bill, but it has not come before the full Senate. Agriculture Secretary John Block has strongly hinted that he will ask the President to veto any legislation that would restrict existing discretionary authority to provide credit relief on a case-by-case basis.

The FmHA is holding about $24 billion in paper from 270,000 farmers. A Senate Agriculture Committee aide says no one is certain how much of this debt farmers would try to defer.

Massive debt deferrals, he adds, would push the government deeper into private capital markets, borrowing to make up for postponed interest payments from farmers.

Credit relief for drought-stricken farmers could cost billions of federal dollars.

PHOTO: MAX WINTER—PICTURE GROUP



HOUSING

The New Allure of Subsidized Housing

A HUD ruling and a new appraisal method have stimulated investors' interest.

Looking for a good investment? Consider subsidized housing. Thanks to a recent ruling by the Housing and Urban Development Department that allows the transfer of physical assets, subsidized housing projects can now be sold, revalued and redepreciated.

HUD previously allowed tax shelters through depreciation only to investors who agreed to maintain low-income properties for 20 years. But as the tax shelter advantages eroded and came to an end, investors often lost interest in maintaining the properties.

Now that HUD permits the sale and resyndication of subsidized housing, investment interest has been stimulated.

In tandem with HUD's ruling has come a new method for appraising real estate, especially subsidized housing, which permits individuals, partnerships and syndications to resyndicate these properties at a higher market value.

Developed by the Real Estate Research Corporation, the new appraisal technique "arrives at values 13 to 20 percent higher," according to Richard Kately, senior vice president. Approved by the nation's leading real estate syndications and tax attorneys, this latest method includes the value of the tax shelter itself, even to the extent of measuring negative or restricted cash flow benefits to those in tax brackets higher than 45 percent.

Lingering Costs Of the UFFI Ban

The Consumer Product Safety Commission's ban on urea formaldehyde foam insulation formally expired recently, when the U.S. solicitor general decided not to ask the Supreme Court to review a lower court's ruling overturning the ban. The CPSC had claimed that the formaldehyde gas in the insulation presented an unreasonable health risk, causing persistent coughs, eye, nose and throat irritation, nausea, headaches, dizziness and respiratory distress.

But owners of the 500,000 homes containing UFFI and those real estate agents engaged to sell those homes will continue to feel the backlash of the heated controversy over the ban.

UFFI's presence can reduce a home's value by an average of 14 percent. Runzheimer and Company, a Rochester, Wis., relocation consulting firm, recently surveyed 98 appraisers nationwide and found that they slashed home values from 5 percent to as much as 40 percent when UFFI was present. The survey revealed that even when UFFI is removed, potential purchasers are reluctant to buy these homes.

State laws in Massachusetts, Connecticut, Minnesota and Wisconsin mandate that real estate agents provide information on UFFI to prospective purchasers.

But, according to Bill Adkinson, a spokesman for the National Association of Realtors, the older a house built with UFFI, the better the chance of selling it, since the level of formaldehyde gas emitted lessens with age.

POLITICS

Caucuses Will Put Their Best Feet Forward

The shoe factories in towns like Walnut Ridge, Ark., and South Paris, Me., are among 700 plants in 42 states that supply the $8.5 billion retail shoe industry.

However, "with imports steadily rising, the domestic footwear industry faces an uphill battle for survival," says Rep. Bill Alexander (D-Ark.). "Import penetration in 1983 is close to 65 percent. The resulting loss of jobs has been devastating as unemployment in the shoe industry hovers close to 25 percent."

In response to the domestic industry's woes, Alexander and Sen. William Cohen (R-Me.) have formed separate House and Senate footwear caucuses. They hope to fuse legislators from the shoe-producing states into a powerful Capitol Hill lobbying force to save jobs, especially in rural communities.

The caucuses will probably push for export promotion and mandated quotas, according to Robert Tyrer, spokesman for Cohen. The senator's strong interest can be traced to the fact that there are more shoe plants (63) in Maine than in any other state. But since 1968, because of imports, annual production has fallen by 9 million pairs.

Special interest caucuses are not new in Congress. But this is the first time members of the House and Senate have announced formation of the same kind of group on the same day.

A Possible Big Race In a Little State

Rep. Claudine Schneider (R-R.I.) has been under pressure since last summer from the National Republican Senatorial Committee to run against Sen. Claiborne Pell (D-R.I.) next year. If she does challenge the liberal Pell, "she will have the best chance of any GOP candidate running against a sitting Democratic senator anywhere in the nation," according to Neil Newhouse, director of political affairs at the U.S. Chamber of Commerce.

Pell has been in the Senate since 1961 and will become chairman of the Foreign Relations Committee if he wins a fifth term and if the Democrats regain control of the Senate next year.

Schneider, in her second term, has been strongly independent of the White House, often voting against President Reagan on issues like spending (she supported the House Democratic budget) and military aid (she voted to end U.S. arms to Nicaraguan rebels).

Despite Schneider's stands, the White House has been urging her to take on Pell.

PHOTO: PAUL CONKLIN

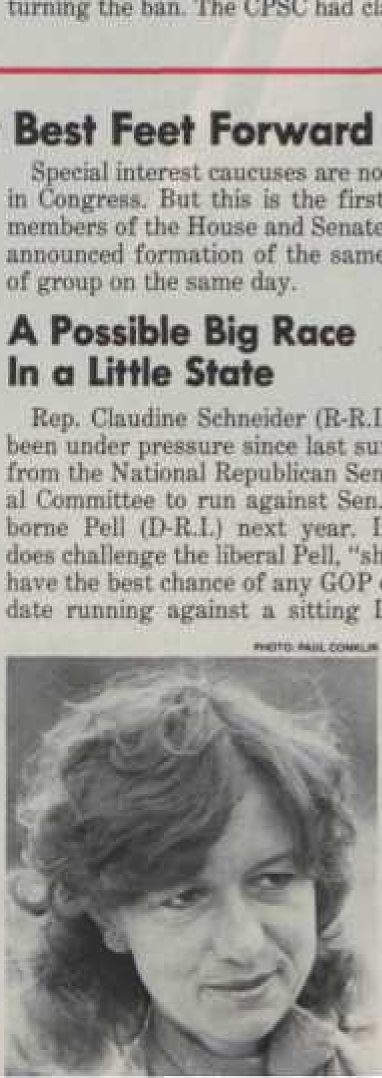


PHOTO: SUE KLEMENS—UNIPHOTO

The White House is urging Claudine Schneider to seek the Senate seat of Claiborne Pell in 1984.

THE TIME has come "for the United States to formulate a national industry policy. . . . Government must enter into a new partnership with business and labor to revitalize the nation's economy."

With that declaration, the AFL-CIO threw its weight behind what is becoming one of the most controversial economic concepts in Washington today—the idea that the United States should have an industrial policy under which various sectors of the economy work together for sustained growth.

While the emphasis in such proposals is on a partnership arrangement, business generally views industrial policy as a step toward centralized economic planning dominated by federal bureaucrats with little experience in the real world of competitive markets.

Big labor's plan includes creation of a National Industrial Policy Board made up of government, business and labor representatives. It would be "supported by a broad public advisory board, including consumer, environmental, academic, civil rights and other groups, and would provide further channels for public involvement through public field hearings."

A development bank would make and guarantee loans to finance approved reindustrialization projects, and the policy board would work with federal agencies "in targeting special assistance in taxes, trade or other areas to promote industry and regional development goals."

The idea of establishing a national industrial policy has been around for years, but recent growth of interest in the concept has its roots in the recession.

Some analysts concluded during the long, steep downturn that basic industries like steel and autos were headed for oblivion and could be saved only through adoption of a national policy.

Much of the support for an industrial policy has developed among liberal Democrats and their political allies, including organized labor. As a result, industrial policy is becoming as much a political as an economic issue. It is expected to figure prominently in the 1984 presidential campaign.

All major candidates for the Democratic Party's presidential nomination have proposed at least some degree of an industrial policy.

The House Democratic Caucus has its own proposal. Sen. Edward M. Kennedy (D-Mass.) heads a group of Senate Democrats developing a plan. The chairman of the House Banking Committee's Economic Stabilization Subcommittee, Rep. John LaFalce (D-N.Y.), has held a long series of hearings on

PHOTO: AMERICAN IRON & STEEL INSTITUTE

Sparks Fly Over Industrial Policy

Rooted in the recession and growing despite the recovery, it's an idea that business wants nipped in the bud.

By Peter A. Holmes

the issue and is planning to come up with a specific proposal.

Why so much Democratic activity? Party leaders and other strategists see industrial policy as a politically effective counter to President Reagan's economic program, which calls for less, not more, government involvement in the private sector.

Thus, the industrial policy debate could serve as the focal point of a presidential campaign in which voters are asked to choose between sharply contrasting economic philosophies. The outcome could affect businesses and industries far beyond the basic ones most often mentioned in the debate.

As generally proposed, an industrial policy contains elements of government approaches ranging back to the New Deal. A common denominator of most Democratic plans is a system of credit allocation to selected industries, a throwback to the Reconstruction Finance Corporation, the Depression-era mechanism for financing industrial recovery.

The AFL-CIO, in fact, refers to its development bank as "the proposed new RFC."

An economic recovery that is far stronger than most economists had anticipated has not reduced Democratic interest in the industrial policy concept.

ONE FACTOR is the Democrats' strategic need to offer voters an economic program that would be an alternative to President Reagan's but would not challenge his policies of cutting federal taxes and spending. Another reason for the endurance of industrial policy proposals is the widely held view that Japan's "economic miracle" was largely the result of centralized planning by a powerful business-government oligarchy that operates through the Ministry of Trade and Industry.

Investment in modern equipment like this continuous slab caster is helping the steel industry regain strength on its own.

The Japanese record of success, which has meant stiff competition for many American companies, has made Americans more receptive to an industrial policy approach, advocates of the concept believe.

But, given industrial policy's strong government orientation, it has generated, not surprisingly, strong opposition from business and conservatives generally.

U.S. industries that supposedly would be the chief beneficiaries of an industrial policy are among its most vocal critics.

Elmer W. Johnson, vice president and general counsel of General Motors Corporation, says an industrial policy would be a disaster. "It would be the end of the market system," he adds. "The very essence of capitalism is that, through decentralized decision making, we will have the greatest adaptability to circumstances and the greatest flexibility in a world of uncertainty."

Industrial policy advocates, Johnson says, bear "a terrible burden" in trying to prove their claim that free markets are too sluggish to respond to economic change and must be prodded by the government.

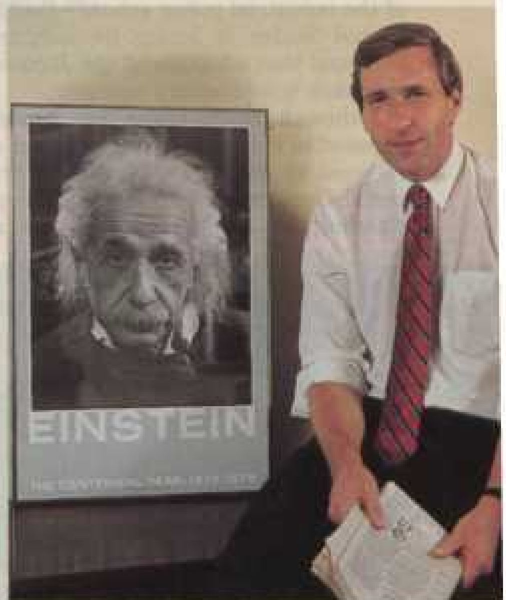
Philip Caldwell, chairman of Ford Motor Company, declares, "Business can't run the government, and government can't run business."

Thomas C. Graham, vice chairman of U.S. Steel Corporation, testified at the LaFalce subcommittee hearings:

"The steel industry—as pressed for relief as it is—does not want direct public sector intervention into the private sector marketplace. We do not feel that our future health is to be insured by centralized planning."

PHOTOS: DAVID VALDEZ

At hearings held by Rep. John LaFalce, business leaders warned that adoption of an industrial policy would be folly.



Rep. Ed Zschau, a leader of a GOP task force on high technology, wants an atmosphere favoring private innovation.

Vico E. Henriques, president of the Computer and Business Equipment Manufacturers Association, says that many of the industrial policy plans now pending in Congress could lead to "a confused and stagnant economy" and could "undermine the foundations of the U.S. competitive economy."

He traces the surge of interest in such plans to "public economic hysteria" resulting from high unemployment during the recession.

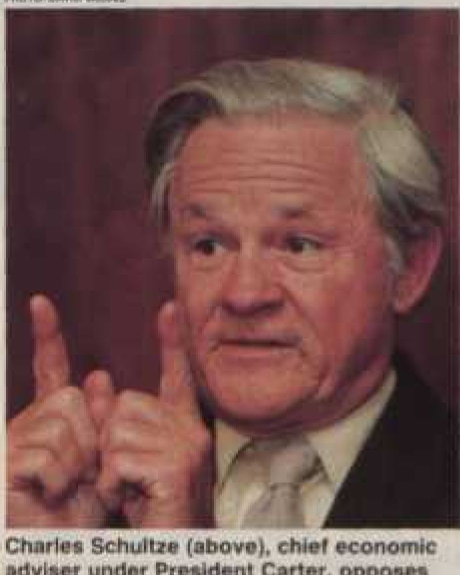
Richard L. Lesher, president of the U.S. Chamber of Commerce, says the answer is not more government involvement: "What we need is the program that we're trying to see put in place—less government spending, less taxes, good control of the money supply and less regulation." If those goals are achieved, he says, American industry will be able to "compete with anybody."

Rep. Jack Kemp (R-N.Y.), a leading conservative, argues in a similar vein: "There's nothing wrong with American industry that a healthy dose of single-digit interest rates and lower tax rates wouldn't cure."

He also challenges the idea that Japan's Ministry of Trade and Industry has been able to guarantee spectacular success for business enterprises: "In 1950 Sony was making coffee pots, and MITI told them to stay in the coffee-pot business and stay out of electronics. MITI told Honda to keep making motorcycles and not go into the automobile industry. MITI told Mazda to go out of business."

PHOTO: HEWLETT-PACKARD

PHOTO: DAVID VALDEZ



Charles Schultze (above), chief economic adviser under President Carter, opposes an industrial policy. John Young (left), Hewlett-Packard CEO, heads a presidential Commission on Industrial Competitiveness.

NEVERTHELESS, one of the key Democratic bills pending in Congress calls for establishment of an Economic Cooperation Council that, among other things, would be able to take part in negotiating terms of labor contracts and business investment in given enterprises in order to help companies become more competitive. Some observers see such a council as an MITI-type operation, although possessing nowhere near the powers of its Japanese model.

Not all opposition to industrial policy proposals comes from conservatives. Charles L. Schultze, who was chairman of the Council of Economic Advisers under President Carter, says, "It is not possible in the American political system to pick and choose among individual firms and regions in the substan-

tive, efficiency-driven way envisioned by advocates of industrial policy."

He challenges two main contentions of the industrial policy school—that the United States is losing its industrial base and that adoption of the Japanese approach would assure success.

Although Republicans are broadly opposed to industrial policy plans as envisioned by the AFL-CIO and congressional Democrats, they are not simply standing on Reaganomics as the answer. And that includes the founder of Reaganomics himself.

President Reagan has appointed a 21-member Commission on Industrial Competitiveness, headed by John A. Young, president of Hewlett-Packard Company. The panel is seeking ways to enhance the long-term competitiveness of both basic and high technology industries.

A report by the commission, expected next year, could well become the centerpiece of the administration's response to the industrial policy campaign. Young's personal outlook on how best to meet challenges from abroad is to adopt a position "consistent with our own history and free market system."

Like Young, Rep. Ed Zschau (R-Calif.) has been highly successful in high-tech business. Zschau founded and ran a company making computer memories, leaving after his election to Congress in 1982. He and Rep. Don Ritter (R-Pa.), also a scientist, now head the Republican Task Force on High Technology Initiatives.

"The proper role for government to play is to help create an environment in which new ideas are likely to flow," Zschau says.

That environment, he says, should include tax incentives for companies to support science education, copyright laws to protect semiconductor design and revision of antitrust laws to permit companies to undertake joint research.

"We should not try to copy the Japanese or anyone else," Zschau says. "We should play to our strengths. One of our strengths has been innovation and the willingness to try new ideas."

PROPOSALS in the various industrial policy plans for allocating capital draw a strong response from an individual familiar with the problems of financing new businesses. Kip Hagopian, a general partner in Brentwood Associates, a major venture capital firm, says, "It is very difficult to pick winners and losers, and I do it for a living. It doesn't make any sense to me that a Reconstruction Finance Corporation-type bank could do a better job. The existing system of channeling the public's money into high-growth industries is incredibly efficient."

But Rep. David E. Bonior (D-Mich.), sponsor of a plan to establish a National Industrial Development Bank, says financing is essential: "You can have all the cooperation you want between management, labor and government, but without the blood to infuse into the patient, the patient will be dormant."

No concrete steps toward adoption of an industrial policy program are expected before 1985 at the earliest, even in the Democratic-controlled House of Representatives. The GOP-controlled Senate is hardly likely to go along with any such Democratic-inspired proposals. Even if it did, President Reagan's veto power would remain an impassable obstacle.

Democratic strategy now looks beyond the election.

Rep. Stan Lundine (D-N.Y.), who has been pressing for an industrial policy plan since 1977, says: "I'm trying to position myself so that if we get a Democratic President, we will hit the ground running in 1985. And I'm trying to position myself so that if Reagan is re-elected, we still have a viable proposal in 1985."

Even if the Democrats hit the political jackpot next November, winning the presidency and control of Congress, there would be no assurance that an industrial policy plan would be enacted shortly thereafter, or ever.

Beneath the surface support of the general concept, there are wide differences on specifics. There already are signs of intraparty conflict along regional lines. Some plans are geared to encouragement of high-tech industries, many of them headquartered in the sun belt. Others would primarily assist old-line industries centered in the Northern and Central industrial states.

Although the need to meet foreign competition is a major stimulus to industrial policy plans, that issue is particularly sensitive for Democrats. AFL-CIO recommendations have a protectionist cast. But agriculture-state Democrats have been highly wary in the past of protectionist moves that could invite retaliation against farm exports.

There is the further concern that politics would enter decisions by agencies that are part of an industrial policy infrastructure. Zschau says that singling out particular industries for financing assistance, for example, could be counterproductive. "I think political considerations would play too large a role," he says.

When and if Congress gets to the voting stage on industrial policy proposals, it will find itself facing a choice between two sharply opposed economic philosophies.

One, embodied in the legislative recommendations for various types of tripartite boards and credit allocation mechanisms, would give government a far more significant role in private sector affairs than it now has.

The other philosophy is grounded in Reaganomics, a concept whose first premise is that excessive government intrusion in the private sector caused most of the nation's economic problems and that they can be solved only with less involvement by Washington.

As Treasury Secretary Donald T. Regan puts it, the choice boils down to "having economic allocation decisions made by 230 million Americans acting in the free marketplace or 20 to 30 government planners acting collectively in a political arena."

If the 1984 presidential election campaign becomes the economic policy debate that many Democrats now seek, voters may choose between the two philosophies before Congress does. □

PHOTO: GENERAL MOTORS

New assembly techniques used for GM's Pontiac Fiero are one example of a huge investment by the auto industry in cost-cutting equipment and quality control.

MISSION: OPERATIONAL LANDING AND BRAKING

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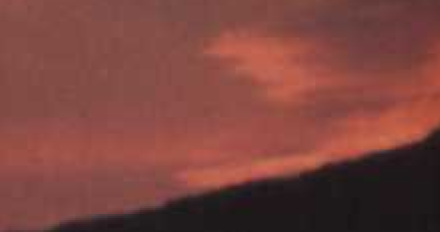

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WASH/9/6

The Scales Tip Heavily On the Side Of Economic Recovery

New recruits swell the ranks of chief executive officers predicting rising sales and profits.

This is a report on the latest Heller/Roper Small Business Barometer, a survey of chief executive officers of more than 1,000 firms that have between 40 and 500 employes.

The survey, designed primarily to show hopes and concerns for the final four months of 1983, was conducted in September by the Roper Organization under sponsorship of the Walter E. Heller International Corporation's Small Business Institute.

More small business chief executive officers than at any time during the last four years are predicting higher sales and profits. And the latest Heller/Roper survey shows fewer are predicting lower sales and profits, tipping the scales heavily on the side of economic recovery.

The survey also covers borrowing and hiring plans, inventories and the length of time it takes to collect receivables, but sales and profits estimates stand out.

Overall, the strong trend toward optimism registered in January and May has leveled at a high plateau. Expectations of increased sales top by 4 percentage points those of last May, which were the highest since the surveys began. Profit expectations have risen also, though by a smaller margin. Plans for adding to payroll have taken a slight dip, and the waiting time for receivables has returned to its January level.

Although most of the survey focuses on executives' near-term economic forecasts, they were also asked about a long-term economic problem: management of the federal budget.

Most of the CEOs blame Congress for the size of the federal deficit, but many also believe that the administration is in league with its legislative counterparts in running up the national

debt. An overwhelming majority do not believe that substantial action will be taken to reduce the federal deficit before next year's presidential election. The most popular choice of remedies for the deficit problem: a combination of an increase in taxes and reduced spending.

Sales

Sixty-three percent of the small business executives say that they expect higher sales in the final four months of 1983 than in the same period last year. Twenty-four percent expect no change, and a mere 12 percent foresee lower sales.

Although a majority in all regions expect increased sales, the hard-hit Midwest leads the country with 67 percent, a jump of 10 percentage points over the May survey. The East follows with 64 percent, the same as in May. The West records a 7-point increase to 61 percent, and the South a 3-point drop to 59 percent. Heller/Roper surveys cover the entire United States except Alaska and Hawaii.

By business categories, 67 percent of the retailers, 65 percent of the wholesalers, 63 percent of the manufacturers and 58 percent of the service CEOs foresee higher sales during the last four months of 1983 compared with the same period in 1982.

Profits

Comparing profits expected for the final four months of 1983 with the same period last year, 52 percent of the small business executives say they will be higher and 16 percent lower—the highest ratio of optimists on profits since the Heller/Roper Barometer began in January, 1980. (Surveys are conducted at four-month intervals.) These September, 1983, figures represent a major gain over a year earlier, when only 29 percent expected higher profits and 42 percent anticipated profits would be lower. They are only a slight change, though, from May, when 51 percent predicted higher profits and 19 percent said they would be lower.

The Midwest again is the most optimistic region, with 56 percent expecting higher profits (up 2 points over May). The West follows with 53 percent (and a larger increase, up 7 points). The East stays the same at 51 percent, and the South remains the least optimistic region, dropping 4 points since May to 49 percent.

Retailers are the most optimistic sector of the economy, with 61 percent anticipating higher profits. Next are manufacturers, with 54 percent, followed by wholesalers with 50 percent and service companies with 44 percent.

Profits as a percentage of sales are expected to increase during the last four months of 1983 over the same period of 1982 by 43 percent of the small business CEOs. Though only a slight increase over the 41 percent in May, it is a healthy 19 points above the September, 1982, survey. Only 17 percent foresee a decrease in profits as a percentage of sales, and 35 percent expect no change.

Chief executive officers of companies with 100 to 500 employes are slightly more optimistic about higher profits (56 percent) than are those of firms with 40 to 99 employes (50 percent). Also, companies in business fewer than 20 years are more optimistic than those in business longer—60 percent and 47 percent, respectively.

Borrowing

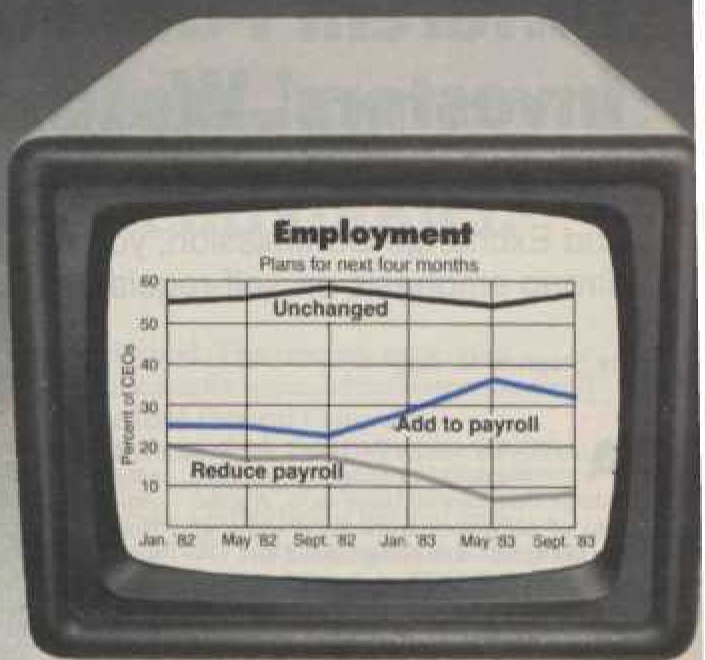
Of all the indicators measured in the survey, expectations for borrowing have fluctuated the least over the last four years. Seventeen percent of the CEOs expect to borrow more in the last four months of 1983 than they did in the same period in 1982. This compares with 18 percent who anticipated increased borrowing in May, 16 percent in January and 17 percent last September. The proportion planning to borrow less is 30 percent—the same as in May, 4 points less than in January and 1 point less than in September, 1982.

Regionally, the West shows the strongest expectation for increased borrowing, with 20 percent. The Midwest reports 17 percent, the South 16 percent and the East 13 percent.

More retailers (37 percent) predict they will lower their level of borrowing than any other sector—service firms, 29 percent; wholesalers, 28 percent; and manufacturers, 27 percent.

Inventories

As with borrowing, concern over the level of inventories has moved within a narrow range throughout the history of



the survey. The largest group has always been those CEOs who believed inventories were about right. Since January, there has been only a 2-point shift upward in the percentage saying their levels are too high, from 25 to 27 percent. There has been a drop of 2 points, from 19 to 17 percent, in those who believe inventories are too low.

Wholesalers continue to be most likely to say that their inventories are too high (40 percent) and least likely to say they are too low (12 percent). This compares with 28 percent of manufacturers and 20 percent of retailers who believe inventories are too high and 17 percent and 19 percent, respectively, who believe that they are too low.

Employment

Prospects for increased employment have softened since the sharp increase recorded in May but are nonetheless appreciably higher than they were in September, 1982.

In the latest survey, 32 percent of small business CEOs say they are planning to add to their payrolls, and only 9 percent say they are planning to reduce them, whereas 58 percent are not planning any change.

A year ago, the comparable figures were 22 percent planning to add to payrolls, 18 percent planning to reduce them and 59 percent planning no change. In May, 37 percent were planning an increase, 8 percent a reduction and 54 percent no change.

Manufacturers are far more likely to be planning to add to their payrolls (40 percent) than are wholesalers (25 percent), retailers (23 percent) or service companies (32 percent).

Receivables

The median waiting time for collecting receivables in the latest survey is 38.1 days, a 2.4-day increase over May, when it was 35.7 days. A year ago, the median waiting time was 38.8 days.

Federal deficit

When asked who is most responsible for the growing federal deficit, 48 percent of small business CEOs point the finger of blame at Congress alone, 39 percent at Congress and the administration, and only 6 percent at the administration alone.

The 48 percent who find Congress alone most responsible consist of the 39 percent who blame past and present Congresses, the 7 percent who blame only those before the 98th Congress and the 2 percent who say the current Congress is solely responsible.

The 39 percent who believe that Congress and the administration bear equal responsibility are made up of the 25 percent who blame both the present and past Congresses and administrations, the 8 percent who indict only the past ones, and the 4 percent who blame only those currently in office.

Eighty-two percent of the CEOs do not expect any progress in bringing down the national debt until after the next presidential election. But the CEOs also express little faith in the 1984 crop of elected representatives' ability to reduce the deficit—only 20 percent believe that action will be taken after the election; 50 percent think the deficit will be allowed to grow.

Though 55 percent would increase taxes and cut spending to reduce the deficit, 41 percent would only cut spending. Only 1 percent favor raising taxes but not cutting spending.

The ranks of those who favor spending cuts are almost evenly split between advocates of wielding the knife primarily on social programs (44 percent) and proponents of using it to whittle the defense budget, along with social programs (41 percent). Only 11 percent favor cutting defense most heavily. In comparison, among those who favor a combination of reduced spending and tax increases, more advocate equal cuts in defense and social spending (45 percent) than advocate cutting social programs most heavily (32 percent). Only 15 percent of this group favor making the heaviest cuts in defense spending.

Those who urge a combination of spending cuts and tax increases were also asked which of eight types of tax measures they favor. Increasing excise taxes is favored by 57 percent, eliminating tax shelters by 51 percent, and establishing a value-added tax by 45 percent. More than 60 percent oppose the other five choices: increasing corporate income taxes (65 percent opposed), increasing personal income taxes (66 percent), increasing estate taxes (74 percent), reducing investment credits (76 percent) and eliminating or reducing IRAs or Keogh plans (78 percent). □

Different Path For Investors' Watchdog

Taking stock of today's Securities and Exchange Commission, you find a strong emphasis on self-regulation.

By Stephen M. Aug

SEC Chairman John Shad: Under his leadership, some commission meetings are so lively that one observer says "they ought to sell popcorn."

A LOT LESS corporate paper work is coming into the Securities and Exchange Commission these days. A good deal of old paper work—and some of the old rules—are being tossed out.

The commission does much less looking over the shoulder of the securities industry—and corporate management—as well. And there is just a little less investor protection.

It is quite a change from the SEC that American business and its investors came to know when the agency became markedly more activist in the early 1970s.

There is yet another difference—one not apparent unless you closely follow the agency's activities. Much more open dissension among the five commissioners exists today than ever before. There is public bickering over the agency's budget—which the chairman has sought to keep from growing. There are public arguments over legislation—legislation all the commissioners agree is necessary, namely, stiffer penalties for illegal insider stock trading. There are fewer unanimous decisions.

One securities industry wit suggests things have gotten so lively that "at some of their meetings they ought to sell popcorn."

This is the SEC of John Shad, former vice chairman of E.F. Hutton & Company, Inc., and only the second chairman in the commission's 49-year history to come from the brokerage houses.

In the two years he has been at the SEC, Shad has managed to change the agency's direction sharply. Its former intrusiveness into corporate boardrooms—and, indeed, some corporate lifestyles—has turned into virtual withdrawal. Several years ago, for example, the SEC filed some widely publicized cases alleging questionable—and undisclosed—use by managers and their families of such corporate assets as jet planes and expensive condominiums. Now the commission even says that proxy statements need no longer disclose routinely some of the noncash perquisites provided to top managers.

One commissioner, Bevis Longstreth, complains that recent changes in proxy rules skewed the whole proxy process too much in favor of management. The new rules make it far more difficult for ordinary stockholders to force management to include many proposals in corporate proxy statements. A company now may exclude a proposal relating to operations that account for less than 5 percent of the firm's assets and 5 percent of its net earnings or gross sales and are not otherwise "significantly related" to the company's business.

That excludes many hot stockholder issues of the past—such as getting out of South Africa. How many U.S. firms do 5 percent of their business there?

The SEC also raised the threshold percentage of votes a shareholder proposal must receive before it is automatically entitled to a second or third opportunity on a company's proxy statement.

WHAT EVER happened to former SEC Chairman Harold Williams' widely publicized proposal that corporate boards be required to have a majority of outside directors?

Here is Shad's answer: "The composition of boards of directors has never been within the SEC's jurisdiction. There is no empirical evidence that outside boards do a better or worse job than inside boards ... inside directors are often better informed concerning a company's operations and the performance of the chief executive officer than outside directors.

"If outside directors have reservations concerning the ability or integrity of management, the tendency is simply to resign from the board. Inside directors have been instrumental in ousting incumbent management on a number of occasions."

Shad ought to know. Before joining the SEC he served on 17 boards of directors.

The Shad commission is far from being a do-nothing agency. It has a string of impressive accomplishments:

- A historic agreement between the SEC and the Commodity Futures Trading Commission, ending seven years of bickering over what the SEC regulates. Now the SEC has firm jurisdiction over options trading in Government National Mortgage Association securities, foreign currency, certificates of deposit and stock indices.
- The SEC—with some help from the courts—won an agreement from Switzerland that will make it more difficult for investors to use Swiss bank accounts to hide illegal trading in U.S. securities markets.
- A lot of paper work requirements under the two principal laws that govern SEC activities—1933 and 1934 securities acts—have been combined. This has cut back commission paper work, and Shad estimates it has saved business more than $350 million a year.
- The SEC has lowered the amount of capital that brokerage firms must have. This freed up more than $500 million of capital, helping the firms handle the big bull market that began in August, 1982. The rule was changed just one month before trading exploded.
- An experimental program has been

STEPHEN M. AUG's *business and economic reports are daily features on the ABC television programs "World News This Morning" and "Good Morning America."*

adopted under which better-known corporations may file a single registration statement that remains "on the shelf" for up to two years. This allows a firm to sell stocks or bonds at just the right moment in the market, rather than wait a couple of months while the commission processes a new registration statement.

THERE IS SOME concern that shelf registration may have cut back slightly on the amount of information available to investors—and on the information's freshness.

Gordon Macklin, president of the National Association of Securities Dealers, says shelf registration prevents an underwriter from effectively exercising what is called "due diligence." This consists of an underwriter's conducting his own examination of a registration statement for a new securities issue before it is sold—essentially verifying what the corporation says in its registration statement.

"For example," Macklin says, "a company calls the underwriter and says, 'We're going to do 5 million shares tomorrow.' "

If the underwriter refuses to handle the issue without a prior investigation, the company simply calls another underwriter, Macklin adds. "So there's great competitive pressure to do offerings without due diligence."

Why not perform a due diligence investigation when the shelf registration is filed? Macklin says these investigations are expensive, and an underwriter is unwilling to perform one when other underwriters may be under consideration to make the offering public.

And some regional brokerage firms complain that shelf registration has cut them out of many profitable public offerings. When a company decides it is time to go to market, the principal underwriter is called. The underwriter may have only hours to form a syndicate—and that seldom is enough time to line up a group of regional brokers.

Generally, though, business is quite happy with the Shad commission. Joseph E. Connor, chairman of Price Waterhouse, one of the largest accounting firms, says that under the current chief accountant, A. Clarence Sampson, the agency is "clearly giving the private sector an opportunity to cure problems or to make changes that are necessary." He says that under Shad's predecessor, Harold Williams—and his chief accountant, John E. "Sandy" Burton—"it was exactly the opposite. It was let's pull the rug out from under it [the accounting profession] as hard as we can."

The emphasis under Shad is more and more toward self-regulation. At the

John M. Fedders, the SEC's enforcement director (at microphone), testifies at a Senate hearing. He says the SEC is cracking down on misleading financial reports.

NASD this has meant sharp increases in its budget—from $19.6 million in 1980 to an anticipated $43.2 million in the fiscal year that began Oct. 1, 1983. Much of the increase is needed to beef up examinations of brokerage firms.

But self-regulation is not always welcomed. When the SEC tried to convince the mutual fund industry to perform more of its own examinations of mutual funds, the Investment Company Institute—the funds' trade association—balked at the cost.

Some critics say Shad has gone soft on enforcement. Actually, close observers of the agency would say, soft is the wrong word—selective is more to the point.

The number of cases alleging illegal trading on the basis of "insider" information has ballooned: from 7 in 1979 and 9 in 1980 to 13 in 1981—Shad's first year—20 in 1982 and 16 by the middle of this year.

In several recent instances, the commission has accused not only the individual who bought or sold on the basis of nonpublic information but also his broker. What the commission has not done, however, is to name the brokerage firm as a defendant as well. In the past, insider trading cases in which a broker was accused would often include allegations that the firm was not diligent—that it failed to properly supervise the broker.

The SEC is also very interested in "cooked books"—making a company's financial outlook appear much better than it really is. Shad's enforcement director, John Fedders, says the agency is processing the largest "inventory" of misleading bookkeeping cases in its history.

Corporations have every reason to

SEC's Chairman: Wall Street-Wise

It is perhaps fitting that John Sigsbee Rees Shad should be chairman of the Securities and Exchange Commission.

He was, before joining the SEC, vice chairman at E.F. Hutton & Company, Inc., and the firm's third largest stockholder. To become SEC chairman, he had to sell his Hutton shares—and, he says, pay a $2.5 million capital gains tax.

His is not inherited wealth. In fact, when he graduated from Harvard Business School in 1949, he was flat broke. So much so that he borrowed $500 from the student loan program to cover his moving expenses to an apartment in New York's Greenwich Village that he shared with a group of classmates.

He joined Value Line as a securities analyst. "I came up with a little company called Associated Transport," he recalls. "The stock was under huge preferred dividend arrearages, and it was selling at 2½. I borrowed $5,000 and bought it. And it went from 2½ to 9 in about six months." Shad sold at 9—it eventually went to 12, but hardly anybody manages to get out at the high—and Shad put the proceeds into what he recalls as "a more attractive investment opportunity." He says:

"I went short the Boston & Maine Railroad, which was way overpriced, overvalued, and I lucked out on that because I didn't realize that there was sort of a short trap and that was what was sending it up. And I went short just as the bubble burst, and the thing collapsed." It was one of the few times Shad went short.

Still, B&M went down, and John Shad was on his way up. Between 1949 and 1965—the years when he was a securities analyst—Shad managed to compound his investment portfolio 30 percent a year, a growth rate he unabashedly admits is "extraordinary."

During the 1960s Shad put Hutton into the investment banking business. The firm had been a retail broker when Shad joined in 1963. By the time he left in 1981, Hutton was managing more than $5.5 billion a year in securities offerings.

Unlike past SEC chairmen, Shad was not well known in Washington. But, as George Ball, former president of Hutton (he is now chief executive of Prudential-Bache Securities, Inc.) recalls, "In what I would call inner sanctums of Wall Street, banking and the securities-related lawyer fraternity—a totally informal and nondefined clan—John was well known, well thought of and an active participant."

He was active in other things, too. When he was 50, Shad took up skydiving. At 60, he still sky-dives occasionally.

And he was an early supporter of Ronald Reagan. In fact, recalls one Wall Street official, "John was the first senior Wall Street figure who came out for Reagan. And some would say he was the only senior Wall Street figure who came out for Reagan prior to the primaries."

He also was the only individual seriously considered for the job of chairman of the Securities and Exchange Commission after the Reagan administration came to power.

try to make their finances look better than they really are—and the motive is not necessarily to fool investors. With corporate liquidity still a problem, businesses want to convince their bankers that they are in good shape. And with business failures running about 25 percent ahead of last year, they also want to convince their suppliers that they will be around for some time to come.

IN ANOTHER management integrity area, the SEC was severely criticized when, after a three-year investigation, it decided against suing in a case that involved allegedly questionable currency transactions. It was a far cry from the 1970s, when more than 400 corporations "voluntarily" confessed to the SEC that they had made questionable payments overseas.

Shad explains that the law and conditions have changed. The Foreign Corrupt Practices Act, passed in 1977, has undoubtedly inhibited such payments, he says. "While managements attempt to compete aggressively for the benefit of their shareholders, employes and others," he says, "they have little incentive to engage in illegal actions, which expose them personally to large fines and criminal prosecutions."

Shad has been cutting the SEC staff's size at a time when securities are being traded at record levels. In 1980 the SEC had a staff of about 2,100. It is headed for fewer than 1,900. Shad says, in effect, that the commission is more efficient—it is doing more with less. He points out that in 1982 the SEC brought 250 enforcement cases, up from 190 the year before.

There is disagreement on the part of at least one of the four other commissioners. John Evans, an independent-minded Republican, says the SEC is "not reviewing things when they come in" and "not going after some individuals because we don't have the resources." Evans, whose term has expired, will leave the commission when a new commissioner is approved; Shad did not want Evans reappointed.

Reviews are especially important in hot new-issues markets like the one during much of 1982.

Shad says the SEC's responsibility is to make sure companies divulge all facts an investor would have to know.

He believes that few individual investors read offering circulars or other material published for them by firms issuing stock, but he is not alarmed. Securities analysts, he says, study them carefully. "They are the ones who tell the brokers, who in turn pass that on to the investing public."

Spoken like a man who was a Wall Street professional for more than 30 years. □

Realtor Stuart Davis (left) thinks Fannie Mae and Freddie Mac should be allowed to buy higher-cost mortgages. Dennis Dammerman of GE Credit Corporation disagrees.

More Competition For Fannie and Freddie?

Federally linked agencies are first in the secondary mortgage market. But Congress may enlarge the private role.

By Mary-Margaret Wantuck

PRIVATE LENDERS once were content to make home mortgage loans and then keep the loans in their portfolios, taking their profit from the interest payments. But with the advent of financial deregulation and volatile interest rates, lenders often had to pay more for mortgage capital than the mortgages were yielding in interest.

The secondary mortgage market came to the rescue. Lenders no longer hold loans in their portfolios; instead, they sell them. The buyers assemble the loans in large pools and issue mortgage-backed securities (also called pass-throughs or participation certificates) for sale to investors, usually institutional. Investors receive a prorated amount of all interest and principal payments and prepayments each month.

That way, lenders receive money for new loans and transfer the risks associated with unstable interest rates to the buyers. Investors get securities that, unlike individual mortgages, can easily be traded.

Besides relieving lenders of the burden of low-yielding mortgage loans, the secondary market has become a vital "bridging mechanism" for the housing industry, according to Jack Carlson, executive vice president and chief economist of the National Association of Realtors.

Savings once were concentrated in the community, he says, but in recent years "we have tended to nationalize our savings." Insurance, pension funds and the like "have siphoned savings into the large financial centers."

For housing, he says, "it is imperative to go where those funds have gone, to where those pots of money are," and the secondary market has been a means of doing so.

Through the sale of mortgages and mortgage-backed securities, money has flowed from the financial centers to local lending institutions, and out into mortgage loans for home buyers.

The securities pay investors well. Thomas A. Kaspar, a vice president of Salomon Brothers, an investment banking firm, says that "returns on mortgage securities have exceeded those on equities and other fixed-income securities and outstripped the performance of corporate bonds with comparable ratings over much of the last 10 years."

In 1970 a little more than one third of the year's \$35.6 billion in mortgage loans was resold in the secondary market. In 1980, half of the \$133.8 billion in mortgage loans was resold, and this year the secondary market is again expected to fund about half of the loans. By the 1990s, with loan originations expected to range between \$400 billion and \$500 billion annually, the secondary market may well furnish two thirds of new mortgage loan funds.

For years one government agency and two quasi-governmental agencies—financial institutions often referred to in the banking industry as Ginnie Mae, Fannie Mae and Freddie Mac—have dominated secondary market purchases.

MORTGAGE-BACKED SECURITIES are the main concern of Ginnie Mae, the Government National Mortgage Association, administered by the Department of Housing and Urban Development. Ginnie Mae guarantees prompt payment of interest and principal on securities backed by pools of Federal Housing Administration and Veterans Administration mortgages; but it does not issue the securities or buy or hold the mortgages. Private lenders do this. As of May 30, Ginnie Mae had \$135 billion in outstanding securities.

Fannie Mae, the Federal National Mortgage Association, largest single investor in residential mortgages, was established by Congress in 1938 to buy FHA-insured loans where credit was scarce and to support government-subsidized housing programs (a role later assumed by Ginnie Mae).

A private, for-profit corporation since

1968, Fannie Mae remains accountable to HUD and Congress through its charter act. It buys mainly conventional mortgage loans of all types but still purchases a percentage of FHA and VA loans. Like a giant savings and loan association, Fannie Mae holds in its portfolio most of the mortgages it buys. Similarly, like financial institutions with government-insured deposits, Fannie has a line of standby credit—in its case, $2.25 billion—with the U.S. Treasury. To date, Fannie Mae has bought some $74 billion in home mortgages from mortgage and investment bankers.

In 1970 Congress created Freddie Mac, the Federal Home Loan Mortgage Corporation, to provide a secondary market for conventional loans. Owned by the 12 Federal Home Loan Banks, Freddie Mac buys mortgages mainly from S&Ls; it does not hold the loans but immediately packages and resells them.

A self-styled innovator, Freddie Mac instituted the SWAP program, under which lenders may exchange lower-than-market-rate loans for easily marketable participation certificates.

Last June, Freddie created the collateralized mortgage obligation, which is collateralized by loans that (1) have an unpaid principal balance, (2) are held in portfolio and (3) pay interest semiannually. The CMO appeals to three classes of investors—those interested in short (5-year), intermediate (12½-year) and long (30-year) maturities. And it overcomes investor fears of mortgages' being paid off before their time (since, on average, Americans move every seven years) by applying early prepayment to the shorter-term debt first.

AT LAST REPORT, Freddie Mac had bought more than $69 billion in mortgages and sold more than $60 billion in mortgage securities.

In contrast, less than $5 billion in private mortgage-backed securities has been sold. Private participants in the pooling of such securities say the deck is stacked against them.

The private participants, called conduits in the trade, have focused their attention on "nonconforming" loans—those above the $108,300 limit set on purchases by Freddie Mac or Fannie Mae. Conduits claim they are unable to compete successfully with Fannie and Freddie for loans under the limit, and they say it has been tough going even for loans above the limit.

Dennis Dammerman, vice president and general manager of real estate financial services at General Electric Credit Corporation, a secondary market buyer, talks about the distinct advantages that Fannie Mae and Freddie Mac possess:

"Their relationship with the Treasury

enables them to sell securities at a yield significantly below that obtainable on the most highly rated private issue; their exemption from Securities and Exchange Commission registration requirements reduces their packaging costs drastically below the level achievable by private competitors. And when marketing mortgage-backed securities, Freddie has the advantage of being legally able to elevate its securities to the status of 'obligations issued by the United States.' "

Karen Nelson, vice president and head of marketing for the Residential Funding Corporation, another private newcomer to the secondary market, agrees that "because of perceived government backing, Fannie and Freddie can offer lower interest rates, but the private market is required to have pool insurance, which adds to our costs and jacks up the interest rate."

vate investors? David Maxwell, president of Fannie Mae, says that "the private sector must be given greater incentives to develop its own secondary market institutions."

And Kenneth Thygerson, president of Freddie Mac, sees the degree to which private investors participate in the secondary market as "the key to its ability to provide tremendous benefits to home buyers, without congressional appropriation."

There is a problem, though.

Both Fannie Mae and Freddie Mac want the $108,300 limit relaxed so they will be free to serve home buyers in high-cost areas like Washington and San Francisco.

But at congressional hearings on Fannie Mae's charter amendments, an Office of Management and Budget official argued that "expansion for Fannie into the upper-income market is inconsistent with the administration's policy of a more limited government role."

PHOTO: GARY KIEFFER

PHOTO: DAVID VALDEZ

Sens. Jake Garn (above) and John Tower want to boost secondary market investment—but they don't want Fannie and Freddie to buy high-cost mortgages.

Aware of the obstacles faced by the private sector, Sens. Jake Garn (R-Utah) and John Tower (R-Tex.) have introduced the Secondary Mortgage Market Enhancement Act. It would amend securities laws, with the aim of luring new players into the market and reducing restrictions now deterring investors—particularly pension funds—from investing in mortgage-backed securities. The bill was approved by the Senate Banking Committee last month, and chances for full Senate passage are considered good.

ANOTHER GARN-TOWER BILL would create a vehicle—the trust for investment in mortgages—that would make it easier to put together mortgage packages and sell the securities without incurring double taxation. TIMs would compare favorably with Freddie's collateralized mortgage obligations.

Home builders, real estate agents, private mortgage lenders and securities issuers support the thrust of both bills.

Do Fannie and Freddie welcome the opening of the secondary market to private investors?

General Electric Credit's Dammerman makes this observation: Since Fannie would be able to handle large loans at lower cost than private conduits, "mortgage originators making conforming loans would target their efforts to the largest mortgages and the wealthiest homeowners, at the expense of low- and moderate-income housing." He explains that one $200,000 mortgage earns the same fee as four $50,000 mortgages, but administrative costs are lower.

Says Claude Pope, chairman of General Electric Mortgage Insurance Companies: Even if the Garn-Tower proposals "were to be enacted in their entireties, we are convinced that the existing statutory advantages would still preclude effective private sector competition with [Fannie and Freddie]. Accordingly, the present mortgage limits continue to be essential if there is to be private sector involvement."

But Fannie Mae's Maxwell says that "last year the unpaid principal balance of first mortgages that Fannie purchased averaged $47,500, far below the statutory mortgage limits."

Housing-related trade groups have strongly supported increasing the mortgage limits on Fannie and Freddie in high-cost areas.

"No evidence exists at this time that new private players will want to become involved in less profitable sections of the housing market or that they will even remain in housing should other industries prove more profitable," says Stuart A. Davis, a St. Louis real estate broker and a member of the National Association of Realtors' legislative committee. He adds: "Because Fannie and Freddie were chartered by Congress with strong public policy goals rather than pure corporate goals, their continued participation as strong, effective competitors in the mortgage market is essential to ensure that all housing needs are met."

The Mortgage Bankers Association agrees. Giving Fannie and Freddie the ability to buy higher-balance loans would guarantee that "high-cost areas of the country will have at least two alternative secondary markets during periods of rising interest rates," says Willard Gourley, Jr., president of Northwestern Mortgage Corporation in Charlotte, N.C., and chairman of the association's legislative committee. Fannie's and Freddie's participation would also "establish a benchmark for pricing private issuances and ensure that there is competitive pricing for loans in this price range. Their presence would simply keep other issuers honest

by providing another source of competition."

But, the private conduits say, the real reason such trade groups want the limits raised is that they want the cheapest money available. Why, they ask, should the federal government be subsidizing well-to-do home buyers?

Says Roy G. Green, executive vice president of the U.S. League of Savings Institutions: "When we're talking about a $108,300 loan, we're talking about a family income of almost $60,000 to justify that. I really question the need in this particular area for government to be creating, in essence, a conduit for houses in this price range and that level of family income." The private sector, he says, has the money to make such loans.

Garn and Tower have resisted appeals to raise the mortgage ceiling. At recent hearings on the legislation, Tower emphasized the need to "encourage the private market to grow, produce and, in so doing, serve the home buyer in the higher brackets."

Many members, both Democrats and Republicans, of Tower's Housing Subcommittee and Garn's Banking Committee endorse the existing mortgage ceiling, and the Garn-Tower bill, as reported to the Senate last month, left the ceiling intact.

GARN AND TOWER are also exploring the idea of "privatizing" Fannie and Freddie—removing any traces, perceived or actual, of federal association.

In the past Fannie Mae's Maxwell has said that "the time for considering profound structural changes will come when Fannie has managed to protect itself against risks of future interest rate fluctuation." Fannie has been under financial strain as it has grappled with the low-interest assumable FHA loans on its books.

Preston Martin, vice chairman of the Federal Reserve Board, argues that although "it is possible to argue for a phase-down of the federal connections of Fannie and Freddie—in concert with development of viable private sector alternatives—it should also be recognized that the federally sponsored enterprises can provide some public benefits that cannot be provided by private alternatives."

The legislative package before Congress may, he concedes, make it "possible for the private sector to develop a large and efficient market for mortgage securities."

But, he cautions, "housing finance is likely to be the first casualty in any future crowding out of private financing occasioned by the huge structural federal deficits that are on the horizon. It would be unfortunate, indeed, if this problem were compounded by inefficient market mechanisms." □

MARKETING

So You're Showing At a Trade Show

By Donald R. Pollock

PHOTOS: DAVID VALDEZ

Michael L. Kibler of the National Glass Dealers Association sets up his exhibit at the InterGlass Metal '83 trade show in Washington. The assembled display—which includes a photo of Kibler himself—is a lively backdrop for prospects.

SHOULD your company exhibit at a trade show? I'll answer that with another question: Do you really want to sell your company's products and services? If the answer to the second question is yes, then the answer to the first should also be yes. The trade show is a potent medium for showing your wares (especially new items), attracting qualified prospects and, above all, selling.

As a former salesman who spent too many nights on the road, I know the advantages of selling at a trade show over selling in the field.

First, taking all costs into account, a large firm may spend as much as $180 per field sales call, depending on the prospect's location. This compares with an average per-contact cost of about $75 at a trade show.

Also, a show offers you a psychological advantage because the prospects come to you. At a show, your prospect can get hands-on experience with your products. And if your industry is high-tech, you can have technical backup from any of your company's engineers.

Over the years I have had an opportunity to plan and coordinate about 60 trade shows, and the pointers I have picked up can help any business participate effectively in such shows.

Let us begin by distinguishing between the trade show and the convention, sometimes mistakenly regarded as identical. The annual convention is a get-together of members of the same association and, depending on the group's purpose, is more or less social.

The reputable trade show is organized to let firms sell their products and services; it is not fun and games. If you are invited to exhibit at a trade show, the first step is to check it out. If you learn that sightseeing and partying are emphasized, do not go. To play fair with our exhibitors and with attendees who seek the state of the art in telecommunications equipment and services, my trade association does not allow hotel hospitality rooms to be open during exhibition hours and also imposes a curfew on them.

Ask the trade show's sponsor for a list of previous exhibitors; then contact them. Participate only if you want to reach the market represented by the show and its location is appropriate. (If all your prospects are likely to be on the East Coast, a show on the West Coast will not be very fruitful for you.) Find out whether the show is nationally recognized, has good attendance and attracts decision makers.

Look for special services the show sponsor may offer. For example, my association's shows feature computerized registration. With a computer on site, we can provide a delegate locator service. You can learn promptly whether a delegate you want to contact has arrived and at which hotel he is staying.

After the show some exhibitors may want data on attendance. We can provide printouts of all exhibitor personnel and attendees alphabetized by last name and by state.

Suppose, after investigating, you decide to exhibit. Before renting space or making other commitments, make sure you cover the most important aspect of successful trade show exhibition: detailed planning before the show. Leave nothing to chance. Regard the show itself as the final step in a long series of decisions.

Hire a professional exhibit designer to determine how much floor space you need and to design an attractive exhibit appropriate to your objectives and your budget. (If you need help in locating a designer, get in touch with the Trade Show Bureau, 49 Locust Avenue, New

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Canaan, Conn. 06840. Phone: (203) 966-7133.)

If you participate with a homemade display and your competitor has a completely professional exhibit, you will have a bargain that is no bargain. He will draw prospects while you twiddle your thumbs. For every 10 feet of booth frontage, you have only about 3 seconds to attract the passing prospect.

Be sure your designer fully understands your objectives and your products. Your exhibit must be the proper mixture of showmanship and salesmanship. Keep in mind that attendees seek the state of the art in products and services. Instruct your designer to single out new items with accent lighting.

INVOLVE PROSPECTS in the demonstration whenever possible. You are trying to communicate with a generation brought up on television's movement, color and vitality, so a humdrum exhibit with a few casual signs just will not do.

An outstanding example of involvement is an exhibit mounted at our shows this year by Anaconda Wire & Cable Company, a division of Ericsson, Inc. The exhibit looks like an old-fashioned schoolhouse. Periodically a school bell is rung to announce the start of a class. Visitors sit at school desks while a "teacher" in period costume demonstrates fiber optic cable splicing. Then the visitors make their own splices.

A standard booth is 10 feet by 10 feet. You will need at least 10 square feet for each person staffing your exhibit if you are to avoid overcrowding. Skimping on space is poor economy, since space rental is one of the least costly major expenditures involved in participating in a trade show.

Space rental fees vary with the size of the show, expected attendance and the services provided to the exhibitor. They range roughly from $350 to $600 for a standard booth at domestic shows and rise to as much as $3,500 for such a booth at some international shows.

Figure on paying about $750 for the simple furnishings provided for your booth by the show's service contractor. These comprise two chairs, carpeting, a wastebasket and a hard-back wall unit on which to hang graphics.

What about the cost of the exhibit itself? Plan to spend at least $2,500 to $5,000 for an acceptable exhibit in a single booth space. This cost can climb sharply, depending on how elaborate the exhibit is and how many booth units it covers. A multiunit exhibit can easily run to $100,000.

Promote your exhibit in advance of the show. Run ads in trade journals. Mail attractive invitations to customers and prospects, telling them that you will be exhibiting and where your exhibit will be located. For large shows it is essential to get in touch with busy decision makers beforehand—to save time, they often prepare a shopping list of booths to visit.

Invite foreign prospects who never have bought from you before—such a gesture may open up a new market for you.

For example, Japan's Nippon Telegraph & Telephone Public Corporation is a large system with 58 million phones and an annual procurement budget of about $3 billion. Until now most of that budget has been spent with Japanese firms. Since NTT is potentially a major market for our member firms, we invited a delegation to fly direct from Tokyo to our recent St. Louis show to explain NTT's procurement procedures to our exhibitors. We also arranged private conferences between representatives of NTT and our member firms—another example of a special service that a show sponsor can render to exhibitors.

Do not assign novice salespeople to your booth while your best sales talent is at the hotel entertaining customers. I cannot emphasize enough that trade show selling is both physically and emotionally draining, with tired feet and an aching back the occupational hazards. It is also markedly different from making field sales calls.

On the road, you may call on three small or medium accounts in a day. A major account may require a day—plus the possibility of taking the customer's key people to dinner the night before. You often write orders during these calls, so the field sales call is a complete transaction, from polite small talk to presentation to closure.

AT A TRADE SHOW you are dealing with a passing parade, and it calls for nimble thinking because you have no time for small talk. As you answer inquiries from one prospect, several others may move close to listen in, and soon you are selling to a group. It is like holding a miniseminar, but it should not last longer than 5 or 10 minutes, or you will lose the interest of other passing prospects. Your key purpose is to provide valid leads for your sales department.

After the show follow up promptly on those leads. Evaluate how well your exhibit pulled and how well your staff demonstrated and sold. Modify your exhibit if necessary, and resolve to do even better next time. For no doubt there will be a next time. You cannot sell it unless you show it. □

To order reprints of this article, see page 81.

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What's Ahead on Benefit Taxes

By Gerald W. Padwe, C.P.A.

Since 1978 Congress has barred the Internal Revenue Service from issuing any new regulations or rulings on the taxation of employe benefits, except when the Internal Revenue Code already specifies how such benefits are to be treated. Many benefits are not taxed today—thanks to administrative decisions made before the 1978 ban was imposed—and the percentage of total employe compensation represented by nontaxable benefits is continuing to grow.

The moratorium on new benefit rulings and regulations expires December 31. To force Congress and the Treasury Department to focus on what comes next, Reps. Fortney Stark (D-Calif.) and Barber Conable (R-N.Y.) have introduced a bill (H.R. 3525) to provide a framework for benefit taxation.

Their bill would exclude from taxable income any "no-additional-cost service" provided by employers to employes or their immediate families as long as (1) the service is available to all employes, on a nondiscriminatory basis, (2) it is of the same type as that sold to the general public in the ordinary course of the business in which the employe works and (3) the employer incurs no significant additional cost in providing it.

For example, a corporation operating an airline could provide its employes tax-free travel as standby passengers on the airline. On the other hand, if a corporation operated both an airline and a hotel, an employe of the hotel division could not receive tax-free standby travel on the airline. Neither could an employe of one airline travel tax-free on another airline through reciprocal arrangements.

Likewise, an employe could not make tax-free personal trips on a company's private plane, even though the plane was otherwise making the trip on company business and seats were empty.

A second general rule would cover employe discounts. An employer could offer employes and their immediate families tax-free discounts of up to 20 percent on goods or services offered for sale to the general public (for example: a department store's merchandise discounts to its employes).

Under other parts of the bill, free or reduced-cost parking would be excluded from taxable income if the parking was available on a nondiscriminatory basis. Demonstration autos furnished to auto salespeople would also be tax-free, subject to certain limitations.

The bill itself is silent on how taxable benefits would be valued, but its authors say the standard would be fair market value—not the cost to the employer providing the benefit. Such a standard would cause substantial problems, both in valuation (which would be subject to IRS challlenge on audit) and in withholding (since no cash was being paid to the employe).

Since the bill would raise some tax revenues (though relatively small amounts), it may run afoul of the administration's no-new-taxes policy. Many in Washington thus expect the present moratorium to be extended for another two years.

Deducting "Interest"

You are a taxpayer using the cash-basis method of accounting. You have some loans outstanding from a bank, and you make periodic payments of interest. Unfortunately, you find yourself a little short of cash when one of those interest payments is coming due, and you are concerned about not impairing your credit. What to do?

One popular technique appears to be both simple and effective: Borrow an additional amount from the bank and use that to make the interest payment. This can be as simple as a bookkeeping entry; the bank credits your loan account for the additional amount borrowed and charges it simultaneously for the interest due.

However, before you call your friendly banker—stop! You are about to fall into a tax trap. IRS, basing its position on a 1981 decision by the U.S. Court of Appeals for the Ninth Circuit, has stated it will disallow interest deductions when funds for the interest payment are obtained from the original lender, through either a second loan or an advance.

On the other hand, what if taxpayer and bank actually exchange checks? Still no good, says IRS. Moral: You'd better get that second loan from a second bank.

WPPSS Bonds

The Washington Public Power Supply System's default on its Series 4 and 5 bonds—involving $2.5 billion, largest tax-exempt bond default in U.S. history—has left some investors with large paper losses. If you hold some of these tax-exempt bonds but believe your investment may be salvaged in the future, you still may be able to obtain current tax savings as a result of the depressed prices—and without substantially altering your economic position. The technique to be used can apply in other bond default situations as well.

An investor who, for example, holds Series 4 or 5 bonds paying 6 percent and maturing in 2015 could sell at the current price and realize a capital loss. Simultaneously, the investor could purchase, at about the same price, Series 4 or 5 bonds with a 6¾ percent coupon, maturing in 2010.

If the default is cured or a settlement is arranged, the bond prices will rise, and the investor will have to recognize a capital gain in future years. But for 1983, the investor will realize a capital loss that can offset other capital gains and up to $3,000 of ordinary income.

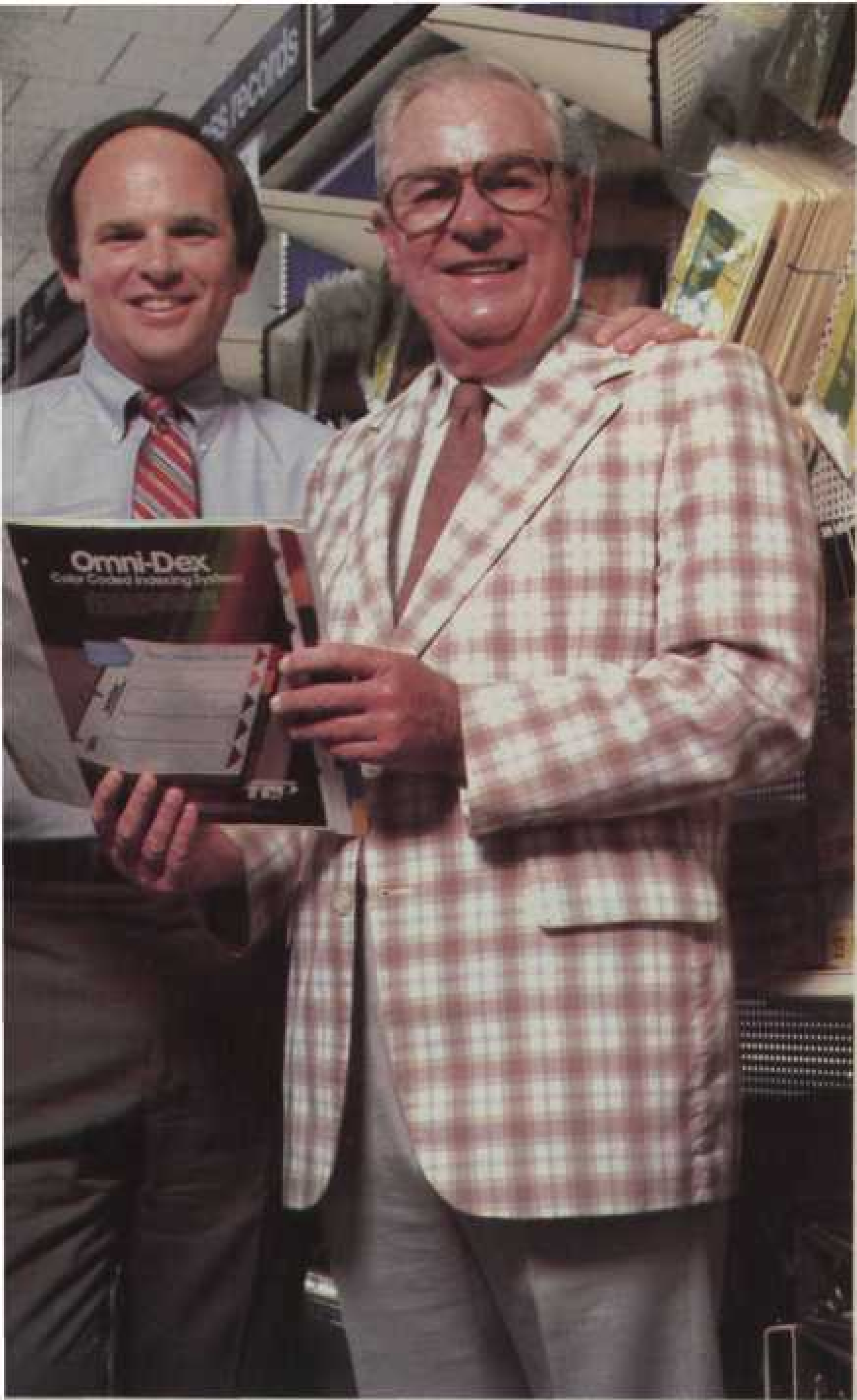
The potential trap here is in the so-called wash sale rules, which prohibit recognizing a loss if, within 30 days of the loss transaction, a taxpayer acquires "substantially identical" bonds. Generally, bonds with differing coupon rates and maturities are not considered "substantially identical." Check with your tax adviser.

Since the wash sale window is only 30 days on either side of the loss transaction, other possibilities—and these would allow repurchase from the same bond issue—include buying new bonds today and selling the original bonds in 31 days, or selling the original bonds today and buying new bonds in 31 days. Wash sale rules apply to stocks, too. □

Note: For Your Tax File *is an information service for readers. See tax and legal advisers for guidance on all specific cases.*

GERALD W. PADWE *is national director—tax practice for Touche Ross & Co.*

*John Waller, Director
Waller Brothers, Inc.,
Mobile, AL*



John Waller and his son-in-law, Terry Silva, Executive Vice President and General Manager, at Waller Brothers in Mobile, Alabama. "Everything for your office except people."

Waller Brothers opened its doors on January 2, 1953. Like a lot of small businesses, it began life with no customers, a good deal of faith and some hard-working, dedicated people.

Today, Waller Brothers has 6 stores, 156 employees and sells office supplies, furniture and office machines throughout Alabama, Northern Florida and Southern Mississippi. 1983 will be its best year yet and the future looks even rosier.

John Waller as a Director of the Company he helped build, is enjoying his retirement with a 621 acre farm. He's proud of the people who now run his company, who are all long-term employees.

"I always worked on the premise that a depression was right around the corner. If a customer could only afford one color ink, why, we sold him red. And if you ordered a whole lot of that, we began to worry." says John, with a twinkle in his eye.

"People are the key to success. I tried to hire folks from good families who wanted to work. Once they came here, I did my best to make sure they *did* work hard."

John Waller is proud of his Peking ducks and White China geese on his farm. It's now his major interest. "If you have to quit work, buy some real estate and get involved."

John Waller has always been deeply involved in his community. He's been Director of the Mobile Area Chamber of Commerce, an active member of the Dauphin Way United Methodist Church and past President of the Boys Club of America in Mobile.

He's still a member of the Board of the Police and Firemen's Pension Fund, and is particularly proud of the fact that the fund has grown in total assets to over 14 million dollars

In 1978 John Waller underwent open heart surgery. His doctors told him to make the choice between continuing his business and dropping dead or taking it easier and enjoying life. "I came to a crossroads. I knew I had to sell out. I had a very lucrative offer from a large company. But I chose to sell to my employees. That was the best business decision I've ever made. Not only for them, but for me. The business has blossomed, they are successfully operating as a team and I know Waller Brothers is in good hands, run by people who have proven their loyalty to the business and their ability to work hard."

Mobile Chief of Police, Winston Orr and Firechief, Frank J. Sealhorst know that John Waller keeps a close eye on funding retirement benefits through his involvement with their pension fund.

The management team of Waller Brothers is made up of seasoned employees who average over 20 years with the firm.

Efficient and compact—The Boorum & Pease Data File Module houses more than 3500 computer print-out sheets. Easy-roll casters conveniently bring the data right to the work area. For today's electronic office—Another innovative product from Boorum & Pease.

The High Technology Revolution's Impact on Economic Development

PHOTOS: GTE STRATEGIC SYSTEMS

The high technology revolution requires the corporate developer to seek high productivity in a pleasant setting, as GTE did in its plant at Westborough, Mass.

THE TECHNOLOGICAL revolution is reshaping the economic geography of America.

Entire new industries, many unheard of two decades ago, have vaulted into the economic mainstream. The revolution has rubbed off on older industries, too, as they have found new technologies for older processes. Thus, industries like communications, robotics, biotechnology and information processing are widely considered high-tech, but virtually any industry can be labeled high-tech if it uses the products of the technological revolution in its manufacturing, distribution and marketing processes.

The technological revolution has changed the way facilities are built and the way the workplace looks. It has vastly altered the factors considered important in selecting new plant sites.

Access to materials, manpower and markets were once the most important criteria in plant location. For high-tech firms those traditional criteria have been replaced by access to research and education facilities, capability of drawing scientists and technicians, and environmental and quality of life factors.

Central to the decision of where to locate a high-tech industry is proximity to a thriving research community.

"Proximity to a university is a must," says William Kopatich, manager of Verbatim's new Charlotte, N.C., manufacturing plant. "High-tech employment roughly breaks down into a 50-50 mix between manufacturing personnel and technical and scientific staff."

Almost equal in importance is the quality of life. It has always been con-

The Growth of High Technology Centers

Green indicates high-tech centers in existence in 1962, according to Conway Data, Inc. Blue indicates centers that the firm says emerged in the following 20 years. Red indicates others that planners the firm surveyed say are emerging now.

sidered, but it did not loom as a major economic factor until the 1960s. Interest grew as high-tech industries emerged that required locations attractive to highly mobile scientists and engineers. And with quality of life considerations came increasing attention to environmental planning.

Industry, particularly high-tech industry, needs no reminder that its own interests are best served by building facilities that are protective of air, water and land. A campuslike setting has become the rule for high-tech industry, for reasons that go beyond mere corporate image or response to public pres-

The criteria for choosing a plant site have changed as heavy industry has declined.

sure. Certainly one of the most important reasons has been the attractiveness of the plant site to workers.

John Dues, director of corporate real estate for Mead Corporation, stresses the labor factor.

"Automation has altered the way we look at labor supply," says Dues. "It forces us to look at environmental and quality of life issues more carefully—in the office and in the neighborhoods."

Jay Mackro, operations planning manager for Tandem Computers, notes that availability of skilled workers is the highest item on that firm's list of concerns in selecting plant sites.

This concern led Tandem recently to choose new sites in Austin, Tex., and Reston, Va. But it is not enough to locate in an area with a large supply of technical workers, Mackro notes. Tandem had to attract these workers from competing industries, and to do this, it made a big investment in its plants, building them in planned community settings and making them attractive.

GTE faced a similar problem when it built its Sylvania Systems Group plant

Facilities for research and education are critical in picking a high-tech plant site.

in Westborough, Mass., near Boston. It knew that a concern for the environment would be in keeping with the company's interest in attracting skilled workers.

GTE, though, faced yet another problem. The plant was to be used for designing and developing electronic equipment for the MX missile. With a multimillion-dollar contract in hand, GTE had to build the plant in a hurry.

The company proved that an environmentally sensitive design could be carried out on an accelerated schedule, an achievement that won GTE an award for excellence in environmental planning in 1981 from the Industrial Development Research Council.

A NUCLEUS of scientific activity, esthetic appeal and support services underpins the development of high-tech areas. Twenty years ago a handful of such areas dominated the high-tech scene—the regions around San Francisco, Los Angeles, Washington-Baltimore, New York and Boston.

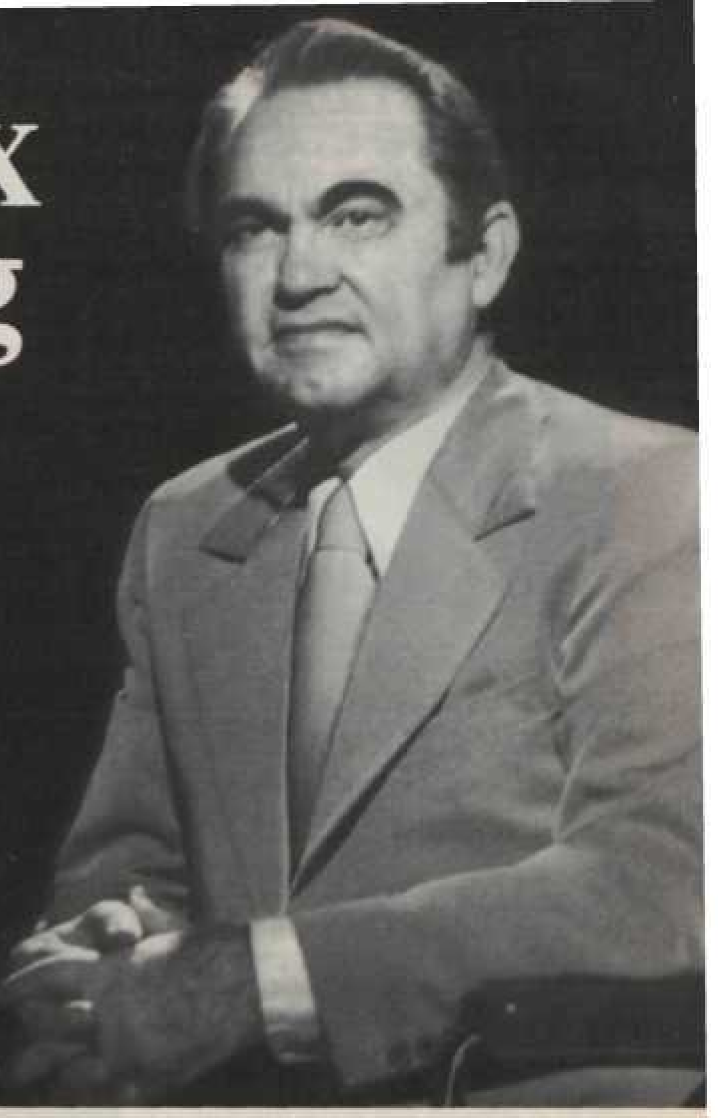
These and other high-tech centers

A BizNet Special

On December 8, BizNet, the American Business Network, will feature a NATION'S BUSINESS report on economic development. To learn how you can participate in this national television dialogue, contact your local chamber or call BizNet at (202) 463-5808.

"Alabama's tax and financing incentives rank with the best in the nation."

Governor George C. Wallace



"Our tax and financing incentives reduce start-up costs and operating expenses, speed up capital recovery, and make it easier for industry to become profitable quickly.

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"If Alabama sounds like the kind of state where you'd like to get down to business, write or call for more information.

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Yes, Governor, Alabama is the kind of state where I'd like to get down to business.

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ALABAMA

A State Cut Out For Business

were later joined by many more because of the efforts of geo-economists who had prepared their areas for industry and had marketed them to high-tech firms. And more are emerging—including Charlotte, N.C.; Sacramento, Calif.; Portland, Ore.; Florida's Tampa-St. Petersburg area and southern New Hampshire.

The technological revolution, particularly in communications, is having a great effect on office locations as well. Just a few years ago, companies found it advantageous to centralize operations, locating their headquarters personnel as close as possible to their mainframe computers. Now decentralization prevails in the office landscape.

For example, new technology led to a decision by the Travelers Insurance Company of Hartford to construct a $75 million office complex in Wallingford, Conn., to house the company's group insurance department. The facility is the first outside central Hartford to include part of the Travelers head-

The New Science of Geo-Economics

Economic development, with its jobs and social benefits, is a top priority item in most U.S. cities and states, and it has always been the objective of growth-minded business. Yet until recently, planning for economic development could hardly be called a science. Before the 1960s there were few rules, almost no literature and little research aimed at refining the then often haphazard planning process.

During the past two decades, however, a new science—geo-economic development—has helped systematize the planning process and has led to a higher success rate for industrial ventures.

The new discipline is directly responsible for significant achievements in planning and implementing a large number of projects that have created jobs and other benefits around the world. For example, communities have come to recognize that their future depends on effective programs for attracting business. Thousands of public and private units with highly professional development programs have greatly improved the process by which industrial facilities are sited.

Geo-economics has led to the development within major corporations of new skills that have produced substantial improvement in how sites are selected and how environmental problems are solved. Industry has reduced its costs and improved its efficiency in transporting goods, recruiting a labor force, controlling energy costs and ameliorating environmental problems.

When the contribution of organized area competition is added to that of improved corporate planning, the total result is substantial.

The science works on two broad fronts—area economic development and corporate growth management.

Area economic development starts with creation of a development group. It first makes an inventory of an area's resources and then forges strategies for attracting business.

PHOTO: CONWAY PUBLICATIONS

The computer is playing a vital role in site selection. Allen R. Wood of Westinghouse (left) uses Sitenet's system with McKinley Conway, president of Conway Data, Inc.

These groups prepare the area for industry by installing such infrastructure as prepared industrial parks, and once ready, they market the area's potential to industry.

Corporate growth management covers the strategic planning that determines the need for new facilities, site selection, design and construction of facilities, and management of the company's properties for the highest yield.

The interests of those involved in geo-economics are wide-ranging, and their roles in the process are diverse, but their one focal point is the advance of the science through sound economic development.

quarters operation. The location would not have been selected but for advances in communications technology.

As high-tech products alter the typical workplace, what are the implications for the corporate planner?

Many of the more routine planning functions will become automated during the 1980s.

Coming more slowly is the use of computer technology for carrying out the search for new plant sites, not because of lack of demand—the demand is indeed enormous—but because the onrush of advances in computer technology has left geo-economists a step behind the times.

THE TIME is fast approaching, however, when the site seeker can eliminate reliance on mail and bulky files and do much of the preliminary legwork by telecommunications. More and more state and local development agencies are developing on-line data bases that can be brought to the console on a corporate planner's desk by way of telephone lines. The next few years will see a great increase in the number of such data bases and of corporate executives equipped with desk-side computers.

Some electronic meeting grounds are already in operation. IDRCNET is an electronic data base for IDRC members. Through this network, members can determine who has had experience in building a plant in Asia, for example, or who can help with writing leases or with other corporate real estate management activities.

Sitenet, a broad electronic information service of Conway Data in Atlanta, offers worldwide coverage of such plant location factors as site availability, tax incentives and labor factors. IDRCNET can be accessed only by IDRC members; Sitenet is available on a free basis to users around the world.

Development agencies that court industry have found the computer the most effective tool for assembling information about their areas. Their computer use has increased 67 percent in the last four years, and 24 states now maintain computerized data bases of site information. Another 11 states are planning to establish such systems.

Facility planners, says McKinley Conway, president of Conway Data, stress that industry will increasingly follow the computer in future development because successful location decisions must be based on up-to-date information. Today's site selector works under pressure of deadlines that are becoming shorter, and if local area data are not current, the tendency will be to pass that location by. □

Bavaria–for Love or Money

Bavaria has more than its share of romantic castles and breathtaking landscapes. It also plays a leading role in the commercial and industrial life of Germany and Western Europe.

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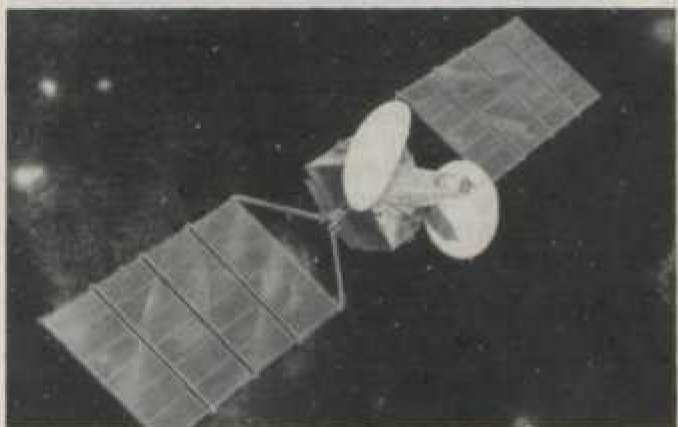

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Picking a Plant Site

A HIGH-TECH INDUSTRY is assured of a warm welcome by the communities it scrutinizes as potential plant sites. Almost everyone is anxious, it seems, to get high-tech, and a dazzling new range of incentives has been enacted at the state and local government levels to lure the progenies of the technological revolution.

A recent Conway Data, Inc., survey of 35 corporate expansion planners—experts who decide where to locate the front-line new plants—tells how geopolitical factors, or business climates, are weighed in the choice of plant sites.

The planners were asked to attach major, moderate or little importance to the influence of six state government incentives directed toward attracting high technology industry.

Four of the incentives involved education—special facilities for teaching math and science at the secondary or college level, designated funding for joint university-industry research and development projects, assistance in creating research and development parks adjacent to state colleges and universities and a requirement that all graduating high school seniors pass an exit exam before receiving their diplomas.

Two other items fell into the category of disincentives to high-tech development. Some states have already stubbed their toes on such disincentives. These include a sales tax on the purchase of computer software and legislation restricting employers' use of CRTs—computer terminals.

Of all the factors, special facilities and programs for teaching science and math prove to be the biggest winner among the facility planners. Nearly 70 percent say this incentive would be a major consideration in their site selection process; the remainder say it would have a moderate influence. The best-known model of such a facility is North Carolina's School of Science and Mathematics, located in a one-time hospital complex donated by the citizens of Durham County. With an annual budget of $3.3 million, the school brings about 400 gifted high school students to its residential campus for rigorous coursework in science and math.

Next in importance is state funding of joint university-industry research projects, with 63 percent saying it would be a major influence on their location decisions. One example of this is New York's Centers for Advanced Technology program, which is just getting under way. Under this program the state selects a group of public universities to specialize in R&D work in a single field. The program is funded by the state of New York and several industry heavyweights, including Eastman Kodak, Xerox and IBM.

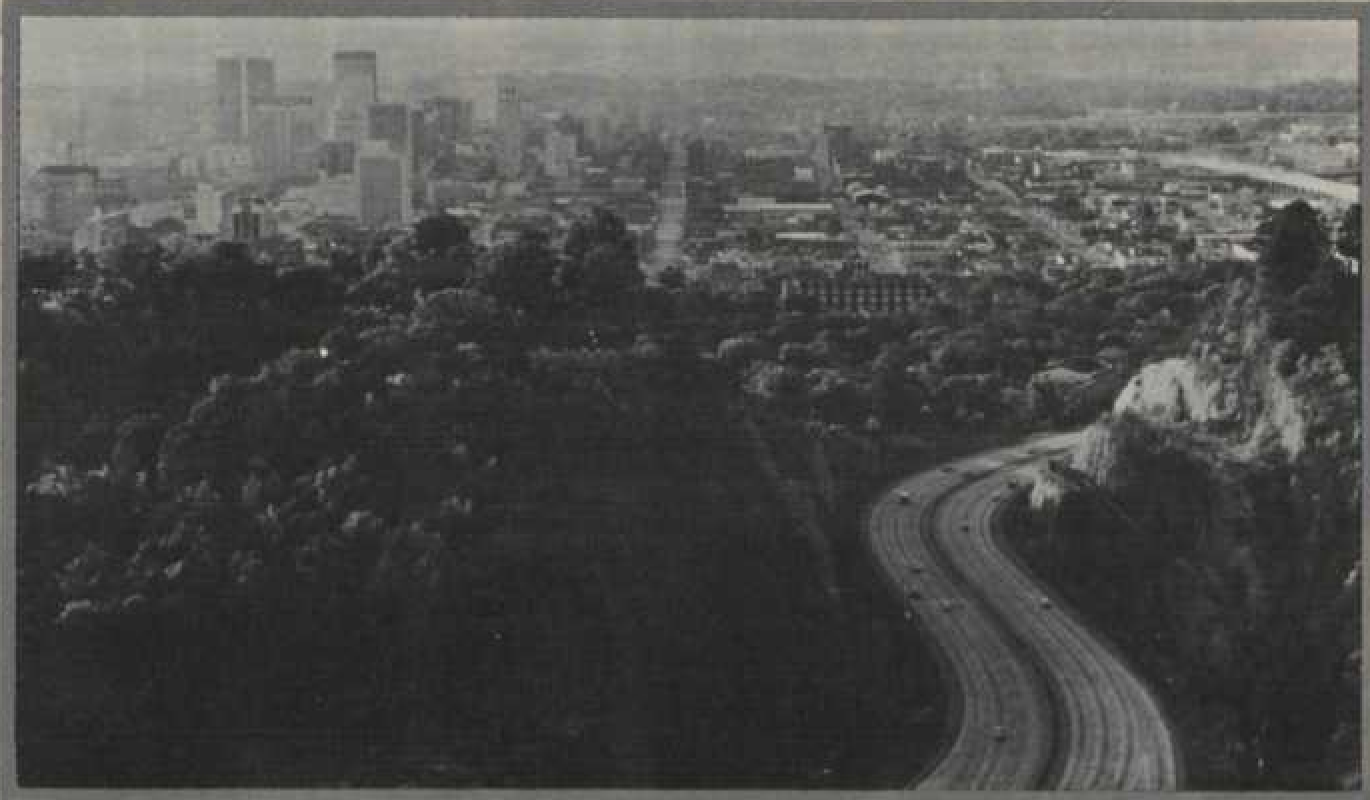
Concern over possible restrictions on use of computer terminals is third in importance to the site selectors. Just over half say this disincentive would be a major influence. No state has passed such legislation, but a bill considered in Massachusetts earlier this year is worth mentioning. The proposal would have required employers to give employes six months' prior notice of plans to install CRTs, and employers already using the terminals would have been forced to provide annual eye examinations, adjustable work stations and frequent work breaks for their employes.

Many factors go into decisions on where work like this—microcircuit assembly—is done.

Some 43 percent of the panelists attach major influence to states' assistance in creating R&D parks near public colleges and universities. These parks allow tenants to share college-research facilities and use faculty members as consultants and graduate students as part-time workers. Across the country there are some 27 university-affiliated research parks.

Only 31 percent say that for them exit exams are a major influence. Another 43 percent attribute a moderate influence to them.

Sales and use taxes on the purchase of software are of the least concern. Only 20 percent of those surveyed at-



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tech major influence to this factor, whereas 34 percent give it a moderate influence. Most states do not collect sales tax on software. Those that do often exempt custom software from taxation.

Other programs may be seen as high-tech incentives, even though some should fall under the heading of general educational improvement, which is vital to any economic development. Another Conway Data survey, this time of the nation's governors, set out to find how well the states are doing in implementing programs of this kind.

Just over half of the governors responding say that their states designate funds for the purchase of computers to be used as teaching tools. However, only about one in four governors says his state provides for a waiver for math and science professionals, allowing them to teach in public schools without a certificate—a feature that would help states temporarily solve the problem of teacher shortages in certain areas. And no state could claim that it offers salary supplements to teachers in these critical fields.

RESULTS ARE MIXED on other incentives attuned more closely to high technology. More than two thirds of the governors say their states offer direct aid or other assistance in securing venture capital for high-tech entrepreneurs just starting out, but less than one third are able to claim facilities set up to provide low-cost incubator working space for them.

All the attention given to incentives to attract high technology firms should not overshadow the storm clouds on the horizon that are still threatening tax-exempt industrial revenue bonds, a long-time cornerstone of development efforts at the state and local levels.

IRBs, which provide business with relatively low-cost financing for new and expanded projects, are continuing to come under attack from some members of Congress, the Treasury Department and others who see abuses in use of the bonds for construction of golf courses, country clubs, racetracks and even massage parlors.

Bond legislation enacted in 1982 disallowed IRB use for a long list of projects and called for the program to end on Dec. 31, 1986. However, IRB opponents are still not satisfied. Legislation introduced this year would make IRBs even less attractive.

On the positive side for developers is the emergence of the IRB insurance industry. IRB insurance policies are unconditional and irrevocable guarantees to pay 100 percent of the principal and

Aiming High for High-Tech

States throughout the country are aggressively improving their education systems to prepare students for the high technology era.

Increased emphasis on mathematics and science is a common denominator of most of these efforts, which recognize the critical relationship between a technology-oriented education system and the ability to attract high technology industries.

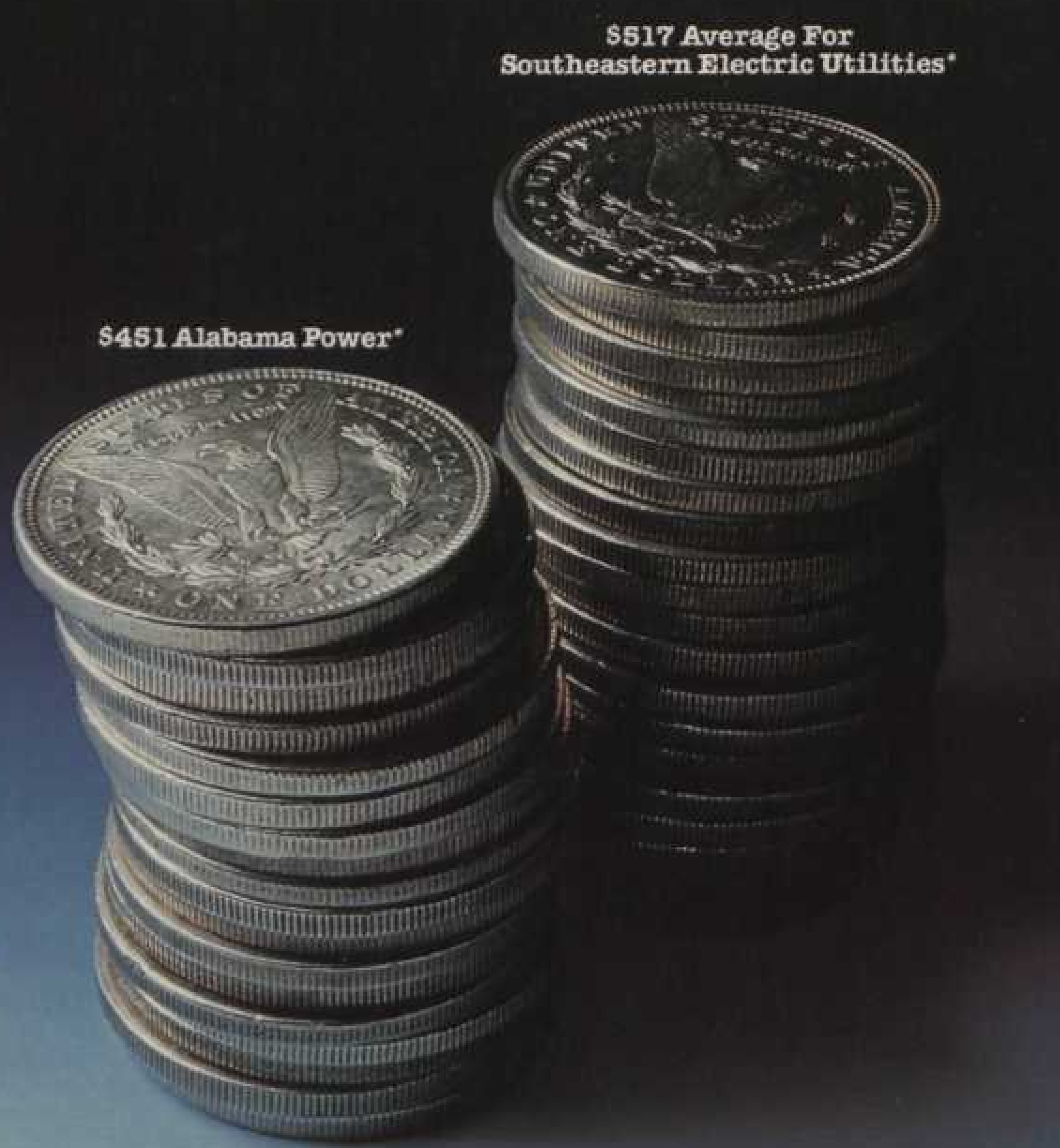
One of the most aggressive education-improvement initiatives is under way in Florida. The state has set for itself the ambitious goal of moving by 1986 into the top 12 states in educational achievement at all levels. Florida has been in the middle range of the states in that category.

Florida's education initiative covers the full range of public education. A system of evaluating both students and programs to spot deficiencies has been implemented from kindergarten to high school. New high school graduation requirements in math and science include an ability to demonstrate computer literacy at the 12th grade level.

An office of high technology and industry has been established in the state's department of education to coordinate educational needs of high technology industries.

State education systems are gearing up to provide enough skilled workers.

PHOTO: ROBERT RATHER—FOLIO



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interest as they become due on the tax-exempt bonds.

Michael Curley, an innovator of the concept and president of IDBI Managers, Inc., of New York City, recently announced that the ceiling on the insurance, written by the Continental Insurance Companies, has been raised to $4 million.

A major advantage of the insured bonds is that they receive an AAA rating from Standard & Poor's and can thus be sold readily through regional and even national investment bankers.

Another incentive attractive to traditional and high-tech industries alike is getting favorable attention. More than a dozen states now offer the services of an ombudsman on the staffs of their industrial development agencies.

These officials, who have varied titles, play the role of point man in state governments for existing industries that have problems with state regulations, taxes and services. No matter what states they are in, the ombudsmen should serve them well in the future, considering the footloose nature of many high technology activities.

IN A RELATED DEVELOPMENT, Louisiana, in an effort to promote economic growth, has become the first state in the nation to grant corporate and individual income tax credits for investment in businesses within its borders.

The emphasis is on smaller business, since, Gov. David C. Treen says, "lack of available venture capital has been a major problem in the development of high-growth small business."

Under the newly passed Louisiana Capital Companies Tax Credit program, individuals and corporations that invest in "capital companies" will get state income tax credits of up to 35 percent. These companies, Treen says, are to operate as partnerships or corporations, with minimal government regulation.

However, to benefit from the program, capital companies must adhere to certain rules. The rules include targeting at least 60 percent of their investments to Louisiana business, investing a maximum 10 percent of assets in any one Louisiana business and investing at least 30 percent of the equity capital they raise within four years. □

Material for this special section was prepared for Nation's Business *by the staff of Conway Data, Inc., Atlanta, publisher of the* Site Selection Handbook. *Contributors were McKinley Conway, president; Linda Liston, general manager; Dick Dymza, Martha Finlay, Nelson Argo, Steve Barber and Ally Wohlfeil.*

SPECIAL REPORT

Where Jobs Will Grow

THE RESTRUCTURING of the American economy is under way and high-tech is the name of the game, according to a recent analysis of economic conditions anticipated in 1987 by the Commerce Department's bureau of industrial economics.

Although smokestack America is not about to be wafted away, the forecast of job growth indicates that certain key industries, like steel and autos, will not be supplying as many jobs for Americans in 1987 as they did in prerecession 1979, used as a base year.

The bureau focused on a sample of 10 high technology industries and 8 of the smokestack variety. Collectively, they represent around one fourth of the existing nonagricultural jobs.

PHOTO: JON RILEY—FOLIO

The forecast: rapid growth in high-tech jobs and much slower growth for jobs in heavy industry.

High-tech industries involved were plastic materials and synthetic rubber, drugs, computing and office equipment, communications equipment, electronic components and accessories, aerospace, instrumentation, medical and dental equipment and supplies, optical instruments and photographic equipment and supplies.

Smokestack industries studied were motor vehicles and equipment, steel mill products, primary copper, lead and zinc, aluminum, farm machinery and machine tools.

Although the eight smokestack industries are not expected to regain all the jobs they lost during the recent recession by 1987, employment gains in the 10 high technology industries are predicted to exceed those losses by a wide margin during the 1979-87 period.

The smokestack sector, which lost about 378,000 jobs between 1979 and 1983, is projected to gain back only 187,000 by 1987. By contrast, 296,000 more jobs were created in the high technology sector with another 654,000 expected by 1987. The two sectors combined are projected to increase their employment by about 840,000 from 1983 to 1987, an increase of only about 759,000 from the 1979 peak.

The bureau anticipates continuing disparities in the growth rates of the high technology and smokestack industries, but it predicts that the two sectors combined will exhibit employment growth over the entire period.

However, says the bureau, "the structural changes underlying the employment figures are significant and have troublesome implications for the regional and occupational distribution of combined smokestack-high technology employment during the mid-1980s."

Some of the findings:

- The relative decline of the smokestack sector has accelerated the shift from blue-collar to white-collar employment. Blue-collar jobs in the combined high technology-smokestack group were 60 percent of the total in 1979; by 1987, it is estimated, they will fall to 57 percent. Blue-collar jobs account for 75 percent of the total in the smokestack sector, but only 50 percent of the total in high technology.
- The average wage of production workers in 1982 was $12.84 per hour in the smokestack sector, compared with $9.46 in the high technology sector. New jobs in the high-tech industries will more than compensate for the slower growth (and some actual losses) in the smokestack industries, but the net result may be to decrease the proportion of higher-paying blue-collar jobs and increase the proportion of lower-paying blue- and white-collar jobs.
- Disparities in regional employment growth in the combined high technology and smokestack industries are striking. Between 1979 and 1987 employment is expected to grow at compound annual rates of 3⅓ percent in the Mountain region, 2¾ percent in the Pacific census region and 2½ percent in New England. In contrast, high technology-smokestack growth rates in the East North Central region and the East South Central region will be less than

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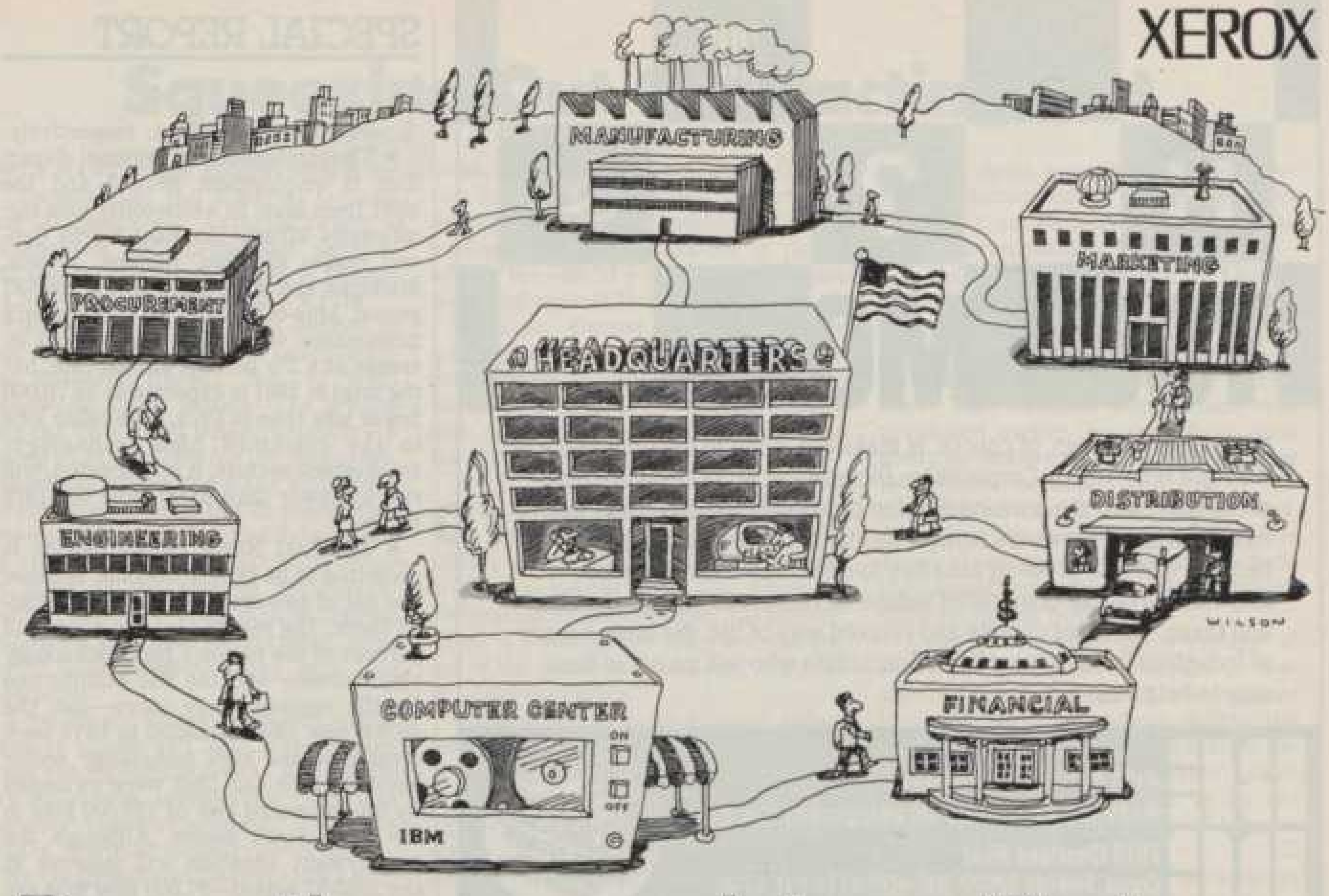

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.5 percent and 1 percent, respectively.

• The combination of regional disparities in employment growth and the shift from blue- to white-collar jobs significantly affects the East North Central region of Ohio, Indiana, Illinois, Michigan and Wisconsin. In the 1983-87 period, blue-collar jobs in this region's smokestack sector are projected to increase at a 2½ percent annual rate, but the total in 1987 is expected to be 70,000 fewer jobs than in 1979. Blue-collar jobs in the combined high technology-smokestack sectors, it is estimated, will rise by fewer than 5,000 from the 1979 figure.

• The East North Central region is projected to be the hardest hit, because one out of two smokestack jobs is located there. The region also has almost 15 percent of the nation's high technology employment—only the Mid-Atlantic and Pacific regions have more—but the 45,000 new jobs estimated to have been created in the high technology sector between 1979 and 1983 were swamped by the estimated loss of 177,000 jobs in the smokestack sector. Although the employment situation will improve in the 1983-87 period—97,000 new jobs are expected in high technology and 84,000 in the smokestack sector—the rate of employment growth in the combined group is projected to be the lowest of the nine census regions.

Regional estimates in the aggregate reveal some potential problems, but others remain hidden, says the Commerce Department report. For example, an employment growth rate of 2¼ percent is expected in the Mid-Atlantic region for 1979-87, but this results from an annual decline of 1½ percent in the smokestack sector and an increase of 4 percent in the high technology sector. New jobs in the high technology sector are estimated to more than make up for lost jobs in the smokestack sector, but in the process there will be big winners and big losers among states, communities and occupational groups.

The report notes these implications:

• Growing unemployment problems for the young and minorities in the smokestack cities of the Northeast and, especially, the East North Central region.

• Continued or accelerated decline in union membership.

• Continuing demand for protection from foreign imports.

• Persistent financial problems for smokestack cities.

• Continuing support for some form of industrial policy.

• Continuing demand for new government-financed education, training and retraining programs. □

Squeezing Out Contracting Out

FOR MANY YEARS, federal workers—employes of the National Oceanic and Atmospheric Administration—warehoused and distributed nautical and aeronautical charts. Cost in federal tax dollars: about $2.8 million a year.

This year, NOAA officials decided to turn over the job to Market Compilation and Research Bureau, Inc., of West Hollywood, Calif. Reason: The private firm can do it for $1 million annually—a saving of $1.8 million for the taxpayers.

Business people say many more such savings are possible. But 28 years after President Eisenhower established a policy of contracting out to private industry many of the services the government requires, a half million federal employes are still performing over 11,000 tasks in competition with free enterprise.

A coalition of federal managers, public employe unions and their allies in Congress has, by legislative and administrative maneuvers, succeeded in thwarting business' hopes of providing billions of dollars' worth of contract services.

By Congressional Budget Office estimates, plumbers, landscape workers, building guards and thousands of other federal employes are performing functions, valued at over $20 billion yearly, that could be performed by the private sector.

Many hoped that the probusiness Reagan administration would overcome previous reluctance within the government to contract out to private firms, but those hopes have waned. Caught in the middle of conflicting demands from powerful parties, the Office of Management and Budget appears to have settled finally on a compromise that is damned by all sides.

In August, OMB offered its solution to a lingering deadlock in the form of a revision of Circular A-76, the 1979 codification of a broad directive issued in 1955 by Eisenhower. OMB said that about $1 billion could be saved annually through redesigned procurement procedures that required more rigorous cost comparisons when agencies were considering whether to contract out or perform work in-house.

A revised A-76 order required all agencies to strengthen contracting out. But it also reaffirmed the policy of giving displaced federal workers first shot at jobs in projects turned over to private contractors.

Donald Sowle, director of OMB's office of federal procurement policy, says that in administering A-76 "we have tried to balance interests as best we can." But George Daoust, executive director of the National Council of Technical Service Industries, says OMB's cost comparison formulas "grossly underestimate" federal employes' benefit packages—a major variable in determining the cost of a project—and so are weighted against business.

Even so, Daoust says, OMB's requirement that agencies make cost comparisons is "almost completely ignored by all but the National Oceanic and Atmospheric Administration and the Defense Department."

ORGANIZED LABOR, government union variety, is also attacking OMB's revision of A-76. Says Harold Muller, a lawyer with the American Federation of Government Employees: "This is a real gravy train for one sector of the economy [business], but costly to the taxpayers."

Richard Lesher is not pleased, either, but for a different reason. The president of the U.S. Chamber of Commerce, in a letter to President Reagan, said "government competition" remains "a major threat to small business." He added: "It is ironic that many private business firms must not only see their market dominated by the government but also must be heavily taxed to support that competition."

A major fight is building on Capitol Hill, where legislators have diluted contracting out by selectively prohibiting the administration from applying A-76 procedures to certain service industries. The Defense Department was prohibited earlier this year from even studying potential cost savings under A-76 for six months.

On the other side, Sen. Warren Rudman (R-N.H.) is pushing a "Freedom From Government Competition Act" that would put teeth into the statutory contracting-out policy.

Even if Congress has a change of heart and gives more support to contracting out, the guerrilla war against it seems sure to continue within the executive branch. One OMB official explains the resistance this way: "You're asking federal bureaucrats to go out and do away with other federal bureaucrats' jobs." □

—Henry Eason

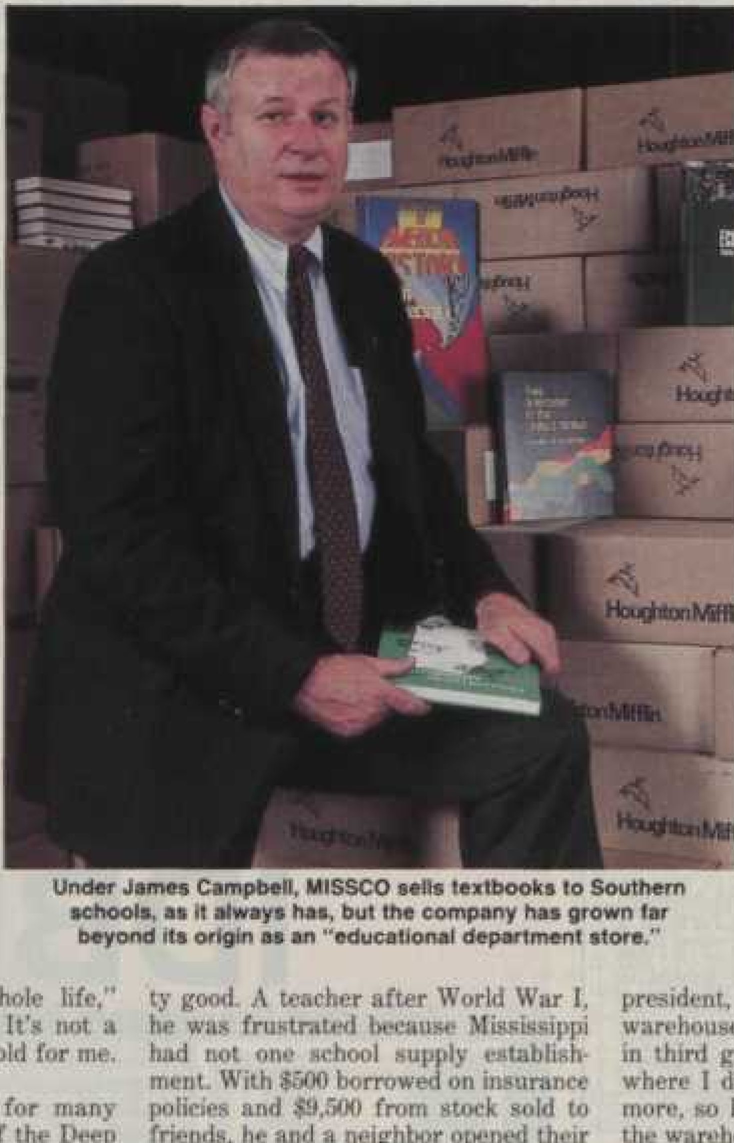
Growth by the Book

James Campbell's company is larger than competitors "because we work at growing."

By Del Marth

SCHOOLCHILDREN in Mississippi's capital city of Jackson no longer recite "Furl That Banner." But that valedictory to the South's Lost Cause was in textbooks when Alexander Boyd Campbell opened the Mississippi School Supply Company as a one-room "educational department store" on East Capitol Street.

That was in 1919. Today Alexander Campbell's nephew—James Boyd Campbell—runs the store. And like Mississippi, the company has changed.



Under James Campbell, MISSCO sells textbooks to Southern schools, as it always has, but the company has grown far beyond its origin as an "educational department store."

In 64 years, the company's name is the only entry on its books that has not grown. It is now called MISSCO. James Campbell, 52, must devote his attention to MISSCO subsidiaries in eight states, to nearly 1 million square feet of buildings, to salespeople throughout the nation, Europe and the Middle East, and to boosting the company's sales from $75 million to a projected $83 million in the current fiscal year.

"This business is my whole life," says Campbell. "I enjoy it. It's not a chore for me. It doesn't get old for me. It's a challenge every day."

More so, perhaps, than for many CEOs. "With the economy of the Deep South as poor as it is," Campbell says, "anybody who had anything on the ball and opened a business in Houston or California or Florida could be worth three times what he'd be if he opened the same kind of business here."

Uncle Boyd must have felt the same way back in the 1920s. Campbell says he liked to boast, tongue in cheek, that "anybody who can make a living selling pencils and books in Mississippi must be pretty good."

Obviously, Boyd Campbell was pretty good. A teacher after World War I, he was frustrated because Mississippi had not one school supply establishment. With $500 borrowed on insurance policies and $9,500 from stock sold to friends, he and a neighbor opened their own supply store. "With our inexperience," he later observed, "we shouldn't have lasted a year."

The Campbells still tell stories about the company's growing pains. One: In 1921 a salesman became confused in ordering a 5-by-8-foot tumbling mat. He described it in his order as 40 feet square, rather than 40 square feet. The delivered article had to be hauled on two rail flatcars.

Most mistakes were more manageable, however, and the company posted a $2,000 profit its first year. Sales climbed to $292,000 in 1922 and exceeded $500,000 in 1928. In the Depression year of 1934, the company went into the red for the first and only time; it lost $14,000. Fifteen years later, in 1949, sales passed the magic $1 million mark.

MISSCO's founder—the "pencil peddler," as he called himself—decided it was a good time to step down. He had civic roles to fill, including becoming president of the U.S. Chamber of Commerce in 1955. He passed the company presidency to his brother, J.W. Campbell, who continued to expand MISSCO by adding divisions like the custom building of laboratory furniture for schools and hospitals. Meanwhile, J.W.'s only son, James, was preparing for the day when he would take over from his father.

"Of course, I knew I was going into the business," says Campbell. "When my uncle was president, I sold soft drinks at the warehouses during the summer. I was in third grade. Then I got to the age where I didn't want to sell drinks any more, so Daddy let me work in one of the warehouses for $1 a day."

That regimen, at different levels of responsibility, continued throughout Campbell's college days—he spent two years at Jackson's Millsaps College and two at the University of Mississippi. With a marketing degree under one arm and a new wife, Martha, on the other, Campbell in 1953 ventured away from MISSCO for the first and only time. But not by choice.

"I was in ROTC at Ole Miss and on graduation went into the Air Force for two years," Campbell says. "I was chal-

lenged to stay in. I enjoyed the service. I was stationed in Europe, as an electronics officer, and my wife and I loved it over there, traveling to different countries."

But the hometown, and family responsibility, beckoned. The laboratory furniture division, General Equipment Manufacturers (GEM), was not turning the profit it should have. Campbell's father asked him to run it.

In three years under Campbell's presidency, it became a profitable MISSCO subsidiary. In the third year, 1963, founder Alexander Boyd Campbell died. His brother, J.W., decided to move up to chairman of the board, and James was made president and chief executive officer.

FATHER AND SON still come to work each day at 6:40 a.m., but J.W. Campbell, now 82, leaves before noon for a ritual card game with friends. About 6 p.m. the son packs his briefcase for dinner at home and an hour or two of homework. "Sometimes I choose to drive back to the office," says Campbell, who likes to complete a task the same day it arrives in his in basket.

That work habit accounts for his perpetually clean desk top. "I like to do things immediately. Sometimes, of course, that is not as good as it may seem. You make more mistakes that way. But I think it is absolutely imperative that you make timely decisions."

Considering MISSCO's far-reaching enterprises, delayed decisions could, indeed, pile up quickly. The company's educational division alone includes four separate school supply firms—one covering Mississippi, another for Arkansas and Tennessee, one for Louisiana and still another serving South Carolina, Alabama, Georgia and Florida. They sell paints and pencils, audiovisual equipment and auditorium furniture, computers and closed-circuit television systems—in fact, all school needs except buses.

Then there is MISSCO's commercial division, which sells office supplies, machines and furniture in four Southern states.

Still another division—schoolbook depositories—sells and warehouses textbooks from more than 50 national publishers. The books are used by the public and private schools of Mississippi and Louisiana.

General Equipment Manufacturers, which builds laboratory furniture and modular office units, differs from MISSCO's other divisions in that it makes, rather than merely distributes, its products. GEM designs, builds and installs its wares throughout the nation.

MISSCO's newest enterprise is the health science division, based in Fort Lauderdale, Fla. Its customers—pharmacies, clinics, doctors and hospitals—buy furnishings, equipment and nurses' aid stations.

In all, 17 corporations and more than 600 employes operate under the parent MISSCO logo. Each of the holding company's five divisions functions under its own president and general manager. Operating as entrepreneurs, they acquire capital, financing and some services from the parent company and then are on their own. Division management and employes profit from a division's success through options to buy MISSCO stock.

Campbell contends MISSCO is successful not because of his innovations or farsightedness but because of the corporation's management team.

"We seek out leadership talent," he says, "and then put great responsibility on its shoulders. Our managers must be people-oriented; such managers are the most successful. We can provide our management team with capital and other corporate needs, but not those qualities of leadership and responsiveness to people." Nearly all of MISSCO's division managers are brought up from the ranks.

MISSCO's managers, supervisors and salespeople are among the most active participants in church, cultural and civic affairs in their communities. "Good business thrives in educated, progressive areas," says Campbell, "and our people give generously of their time, money and knowledge to enhance the quality of life in their towns." That involvement is an important reason for MISSCO's success, he says.

The firm's sales volume rose from \$14 million in 1963 to \$75 million the past fiscal year. "Of course, during the recent recession," Campbell says, "we were lucky to even grow. But, since 1980, we did boost annual sales by several million dollars."

Campbell adds: "We're much larger than any of our competitors in the South because we work at growing." For example, Campbell keeps up with new technology and takes MISSCO into such fields when it looks profitable. Under his direction, the firm became one of the earliest to sell computers to schools.

A MISSCO policy under Campbell is to reinvest profits. And as the company does so, it looks beyond the Deep South.

"We move geographically into contiguous areas," Campbell says. "Right now we like what we see up the East Coast. We like the Virginia area, the Washington area, the Maryland market. We also like some of the Midwest."

MISSCO's educational division in recent years has been dragging because of tight school budgets, but, Campbell believes, it is destined to again become the most profitable division.

"The country has to make more of an investment in education," he says. "It's our most precious resource. My philosophy, like that of the U.S. Chamber of Commerce, is that education is a local and state issue. But when Congress determines a national priority, it seems the only way this priority can be met is for the federal government to fund it."

Campbell is helping when he can. More than 20 percent of his working time is devoted to not-for-pay jobs.

A member of the U.S. Chamber's board of directors, he is chairman of the Chamber's education committee and a member of the National Governors Conference's Education Commission of the States.

Both the committee and the commission, he says, "want more emphasis on science and math, writing and reading, and computers."

Campbell also sees a need for better interaction between the

MISSCO also serves the medical profession. Evelyn Nash, one of the firm's more than 600 employes, designs facilities for doctors' offices and hospitals.

PHOTOS: GARY KAPPEN

private sector and the educational establishment. "There's an awful lot of mistrust between the two—business charges there's too much waste in the education area, and educators charge business with being greedy and money-grabbing."

But, he says, it is imperative that business and education form a partnership so they can achieve common goals.

ONE PROBLEM, he says, is that education leaders look to the business community for cooperation and "find that business has no one spokesman in town who can commit manpower and resources." Part of the problem, he explains, is that most schools are in communities where all of the businesses are small.

"Big industry has gotten involved in education," he says. "For example, when the president or board chairman of a major national corporation says it is going to get involved in local school systems, that directive comes all the way down the line to the corporation's offices in the small cities, and they do get involved.

"But it is not easy to get that support in a community without an IBM or a General Motors. Jackson is a good example. We have many small businesses and therefore much diverse opinion about education."

To meet the physical challenge of expanding MISSCO and working to improve American education, Campbell is up every morning at 5 for a neighborhood jog with his 16-year-old daughter, Martha. He prefers jogging to other sports "because it takes the least amount of time."

Should Campbell decide some day to adopt his father's schedule of leaving the office before noon for a game of cards, another generation is ready to assume command. Campbell's sons Jimmy, 26, and Joe, 22, work in the MISSCO complex. Boyd, 20, a junior at Millsaps College, spends his vacations at MISSCO, and daughter Martha is welcome to join MISSCO's ranks whenever she chooses.

"I don't push them to enter the business," says their father. "I just try to set an example. Interestingly, my daughter and youngest son do things the way I do; my two older sons do things very differently—they're more relaxed."

Two sons of Campbell's sister also punch in each morning at the Jackson corporate headquarters.

All undoubtedly will be needed in key roles if MISSCO continues at the pace that has made a major Southern business enterprise out of a one-room "educational department store." □

To order reprints of this article, see page 81.

SPECIAL REPORT

The Best of Times And the Worst For Insurance Buyers

The price of commercial coverage will remain low, but health rates are still spiraling upward.

By Leah R. Young

Rising hospital costs have spurred the federal government to limit Medicare payments—but many in the insurance industry fear that the result will be higher bills for private patients.

THE OLD "good news-bad news" jokes are a reality for the buyer of insurance these days. The good news for the business consumer is that the insurance needed to cover property, inventory and various commercial exigencies will remain a bargain. The bad news is that all signals point to a continued upward spiral in the cost of health insurance benefits provided to employes.

In the commercial lines, observers say, companies have a lot of money to put into insurance underwriting. That is why experts like André Maisonpierre, senior vice president of the Alliance of American Insurers, have changed their views.

Maisonpierre predicted last January that insurance rates would rise as interest rates came down. As companies earned less on investment income, he said, they would not be able to absorb underwriting losses. But, he says now, "I was wrong, and I share being wrong with about five dozen company chief executive officers."

There is, he explains, just too much money available for insurance underwriting and too much competition—among companies, between commercial insurers and captive insurance companies writing exclusively for a particular group, and from self-insurance, in which firms assume risks, up to certain limits, without outside coverage.

He points out that three years ago companies had written $3 in insurance for every $1 in reserves. Today for every $1 in reserves there is only $1.50 to $2 in insurance.

Now, Maisonpierre says, "I don't see prices rising."

This view is echoed by Donald L. Jordan, executive director of the National Association of Insurance Brokers.

Jordan says that insurance companies are using low rates to expand or hold on to market share now—before Congress gives banks, savings and loans and other financial institutions the opportunity to underwrite or sell insurance.

Add these facts: Interest rates are still high by historical standards, and there is a lot of offshore insurance capacity eager to enter the U.S. market because of the stable dollar. Domestic companies are unlikely, Jordan says, to raise rates and risk an influx of competition from Bermuda and elsewhere.

There is no reason for them to take this risk, Jordan reasons, considering that carriers earned more in the first six months of 1983 than they did in the comparable period in 1982—when interest rates were higher. Net after-tax earnings of the property-casualty insurance industry climbed to $3.77 billion in the first half of 1983, compared with $2.23 billion a year earlier, according to the Insurance Services Office and the National Association of Independent Insurers.

INVESTMENT INCOME and profits from other lines of insurance have kept the property-casualty companies in the black, even though, in 1982, they had $1.09 in losses and expenses for every $1 in premium income. Some experts believe that the ratio will go higher this year, perhaps to $1.14 in losses for every $1 of premium income.

Fierce competition in the last few years in the property and casualty lines has forced premiums down and created the flood of red ink. Underwriting losses were $10.2 billion in 1982. First-half losses in 1983 indicated a similar loss for the entire year.

CIGNA Corporation, for example, reported that consolidated operating income declined 25 percent for the second quarter in 1983, compared with the same quarter in 1982. For the first half of 1983, operating income was down 7 percent.

The decline, says Robert D. Kilpatrick, CIGNA's president and CEO, was caused principally by continuing weakness in property and casualty operations; employe benefits, financial services and other operations were in line with company expectations. "These results," says Kilpatrick, "reflect continued weakness in underwriting experience and high expense levels."

DeRoy C. Thomas, chairman and CEO of the Hartford Insurance Group, predicts a slow turnaround for the property and casualty sector with some hardening of prices.

"But there are so many competitors that there is no single company that can become a price leader," he adds.

James Stradtner, an analyst with Alex Brown & Company, of Baltimore, believes property and casualty insurance prices in 1984 will be directly related to the interest rates available for investment income. If rates continue to drop, he says, then companies that have just paid out for hurricane losses on top of spring flood losses will have to raise the price of coverage.

Hurricane Alicia alone is estimated to have caused $676 million in insured damage.

But making price increases stick could be difficult. Most observers see resistance on the part of business peo-

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LEAH R. YOUNG *writes on insurance, banking and law from Washington.*

PHOTO: TIM KELLY—BLACK STAR

Insurance companies that have paid heavy claims for flood and hurricane damage may raise rates if their investment income falls—but will the higher rates stick?

PHOTO: GARY KIEFFER

André Maisonpierre: "I don't see prices rising" for commercial coverage.

ple who have become sophisticated enough to switch insurance carriers—and brokers, if need be—to obtain better prices.

Businesses that comparison shop will probably get a lot of insurance for their dollars, most experts agree.

The view is not so rosy on the health insurance side. The Health Insurance Association of America estimates that $7.9 billion in costs is being shifted from the public sector to the private sector this year as the government attempts to hold down its health spending with curbs on hospitals.

Most of the health insurance industry believes that a new federal program, under which Medicare payments to hospitals are set in advance for different types of services, will result in the transfer of even more costs to private patients and their insurance carriers. The program began October 1.

Health insurers and an unusual political ally, the AFL-CIO, have tried unsuccessfully to convince Congress that cost controls will work only if they are applied to all patients, not just Medicare patients. Insurers are hoping that states will take the initiative and follow New Jersey, Maryland, New York and Massachusetts in creating such across-the-board payment systems. Maine, West Virginia and Washington have programs not yet certified by the federal government.

Richard Mellman, a Prudential Insurance Company vice president, predicts that when the three-year phase-in of the federal program is completed on Oct. 1, 1986, large urban hospitals will have no choice but to shift even more costs to the private sector. The reason: urban hospitals will be held to national averages that are pulled down by lower costs in rural areas.

"I don't see anything good affecting the cost of [health] insurance unless we see an all-payer system [of cost limitations] or more state all-payer programs," he says, noting that hospital cost inflation was 15.3 percent in 1982.

According to a U.S. Chamber of Commerce estimate, 5 to 6 percent of payroll now pays for health insurance. Add in taxes for Medicare and disability coverage, workers' compensation expenses and sick leave, and health care costs now come to about 11 percent of payroll, says Jan Peter Ozga, a Chamber health cost expert.

THE ADMINISTRATION'S response to escalating health costs was to propose a limitation on the amount of money an employer could allocate to health insurance for his workers. The proposal ran into a firestorm of protest by employer and union groups, employe benefit experts and insurers. It is not considered likely to pass Congress. Thus, many larger corporations and local business health councils, with U.S. Chamber support, are now trying to determine whether the private sector can act to help hold down health costs.

Various companies are (1) promoting use of health maintenance organizations, (2) contracting with preferred provider organizations—under such contracts, physicians offer discounts on care for a group—and (3) urging second opinions before surgery. In a new agreement with the Communications Workers of America, AT&T established a joint committee to study methods of containing the company's rising health care costs, which now amount to $1.8 billion annually.

Similarly, Chrysler Corporation is asking workers to support company attempts to develop agreements with doctors and hospitals to furnish health care at fixed rates. Chrysler is currently looking at a $373 million bill for employe health care this year—a 14 percent increase over 1982.

Ford Motor Company is also attempting to control its bills for employe medical costs, which now total $800 million annually. Ford has announced that, beginning this January, deductibles on policies for salaried workers will rise. Under family coverage, insurance will take over only after the worker pays the first $250 of a medical bill—up from $150. Cost sharing will increase under Ford's dental plan as well.

General Motors changed its coverage for salaried workers last year, setting higher deductibles and coinsurance rates—percentages of medical bills beyond the deductibles that the employes pay—than for hourly workers. In an experiment with its health insurance carrier, Blue Cross-Blue Shield, it is also encouraging workers to have some surgical procedures performed on an outpatient basis.

Some companies are trying self-insurance—acting as their own insurers and hoping interest earned on the premiums set aside will leave the company with a smaller net payout.

The health insurance carriers do not want to encourage self-insurance. On the other hand, they cannot lower premiums, which have been rising 20 to 40 percent annually in recent years, because of the rising cost of health care.

As difficult a problem as health insurance is for life and health companies, a bigger one looms on the horizon—higher federal taxes. A proposal by Reps. Fortney Stark (D-Cal.) and Henson Moore (R-La.) would increase the taxes on the companies by rewriting tax laws in effect since 1959.

Although the amount of taxes to be paid—called the "taxable income adjuster" by the House Ways and Means Committee—will not be determined until a new tax structure is formulated, the proposals are tentatively designed to raise $3 billion a year in life insurance taxes. This compares with $2 billion per year under the temporary life insurance tax provisions passed in 1982 as part of the Tax Equity and Fiscal Responsibility Act. □

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The Fight Over Product Liability Law

Many in business believe the time has come for a single national standard.

MUST BUSINESS and consumers be adversaries? This is the question underlying congressional debate over product liability law.

Consumer organizations and attorneys who bring liability suits against businesses contend that the adversary system based on state law and judicial interpretation of common law is still the best protection for the injured individual.

But business people of all stripes—manufacturers, wholesalers, retailers, small and large businesses—and their insurers are joined by a sizable minority of lawyers in arguing that a federal law clearly delineating who is liable under what circumstances would offer more protection and lower insurance costs. This, they say, would translate into dollar savings for all consumers.

In the eyes of many in the business community, the current product liability system is a lottery in which a few are well compensated, some are overcompensated and many receive little or nothing, while all consumers foot the bill. At the same time, they argue, the system is grossly unfair to business since business does not know when it will be held responsible for injuries from product uses not envisioned, from poor maintenance of equipment or from unknown hazards.

Legislation to bring order to what such business people view as economic chaos has been introduced in both houses of Congress, in differing versions. The greatest attention has been focused on legislation authored by Sen. Robert Kasten, Jr., (R-Wis.); it would establish uniform product liability standards to replace the wide variety in state laws.

At present it is possible for a manufacturer to be held liable for an injury in one state but not in another. He often does not know whether there is legal liability until a judge makes a ruling.

Kasten's bill provides that a manufacturer is responsible anywhere in the United States for damages to an injured person—laws involving property damage would not be changed—when that person can establish "by a preponderance of the evidence" that the product "was unreasonably dangerous" in construction, manufacture, design or formulation.

The manufacturer is also liable under the bill if he failed to adequately warn about possible dangers or "about proper use of the product." Similarly, if a product causes injury because it did not live up to the manufacturer's warranty, the manufacturer is responsible.

Sen. Robert Kasten: His bill would replace a crazy quilt of conflicting state laws on manufacturers' liability for injuries.

THE ADMINISTRATION has given enthusiastic support to Kasten's bill. Commerce Secretary Malcolm Baldrige, who chaired the President's Council on Commerce and Trade, wrote the senator on July 20 that federal legislation is necessary because state law cannot deal with problems of interstate movement of goods.

Baldrige did say he had "technical" questions about the bill. Those questions involve the one area where the business community is divided: how to balance the rights and obligations of manufacturers and employers when workers are injured by the products they use on the job.

The Kasten bill would reduce the judgment against a manufacturer in a product liability suit by the amount provided to an injured worker under workers' compensation statutes. Unless the manufacturer had agreed to indemnify the employer for any costs of injury to workers, neither the employer nor his insurance carrier could sue the manufacturer to recover the sums paid out in workers' compensation benefits. Similarly, the manufacturer could not sue the employer to require the employer to pay part of the award to the injured party.

The idea behind this provision is to give back to employers the immunity from suit that is part of the workers' compensation bargain—workers get paid for injury regardless of who was at fault, but employers may not be sued by workers. Some employers, however, are opposed to the idea that they could not recoup workers' compensation payments when manufacturers were at fault.

Insurers, who absorb the costs of litigation, argue for the provision, saying it will save enormous sums now paid in lawyers' fees when employers and manufacturers sue each other after a worker has been injured and has successfully sued the manufacturer for damages. For product liability cases generally, the Senate Commerce Committee estimated in 1982 that $7 goes to attorneys on both sides for every $6 paid in benefits to victims.

But some employers fear that if they cannot countersue manufacturers, the result will be an unbearable increase in workers' compensation costs.

Lurking just under the surface of the debate over Kasten's bill is the question of whether any legislation is needed at all. The Association of Trial Lawyers of America, composed of attorneys who represent injured consumers, argues that all legislation should be rejected because it will limit recovery. "The supporters of this legislation want more freedom from the consequences of manufacturing and marketing defective and harmful products," spokesman Howard A. Specter told the Consumer Subcommittee at the April hearings.

U.S. Chamber of Commerce Vice President Hilton Davis offered a counterargument in a September 15 letter to the members of the Senate Commerce Committee:

Because the law governing product liability varies so much from state to state, he said, it is difficult for insurers "to predict accurately the potential liability of the manufacturers they insure." Likewise, manufacturers cannot make "informed decisions" about how to design a product that will be distributed nationwide; a design that meets the law's requirements in one state may fall short in another.

Consumers, Davis wrote, "ultimately pay the cost of this unpredictability," by paying higher prices for the products they buy. □

—Leah R. Young

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A Bridge Of Understanding

One volunteer agency exemplifies how student exchange programs can create international bonds.

By Seth Kantor

"ONE OF THE BEST WAYS to develop more accurate perspectives on other nations and on ourselves is for more Americans to join, for a time, a family and a community in another land."

Those were President Reagan's words last year at a State Department luncheon attended by a group of Americans prominent in business and other fields. The President was announcing a new program, the International Youth Exchange Initiative, to be supported by matching federal and private funds and administered by experts like those at Youth for Understanding.

YFU was involved in international student exchanges back when Ronald Reagan was still a movie star. Established in Ann Arbor, Mich., in 1951 by Rachel Andresen, YFU has remained "a kind of middle-class, middle-American international volunteer organization ever since," according to its president, John Richardson, a former assistant secretary of State for educational and cultural affairs.

YFU's board of trustees consists of leading business executives, educators and prominent Washington figures. Among the latter: former Senate Minority Leader Hugh Scott, former Senate Foreign Relations Committee Chairman J. William Fulbright and Adele Langston Rogers, a leading Washington attorney and wife of former Secretary of State William P. Rogers.

Well-known personalities on three other continents also serve on the YFU board, and in recent years a number of major corporations in the United States, Germany, Japan and Australia have become involved as sponsors of the privately run YFU.

In Japan, for instance, manufacturers with international interests have contributed $6 million to YFU since 1974, primarily to help U.S. students spend a school year in Japan.

"The reason for Japanese interest is obvious," says Richardson. "This is one of the efforts they have made, in a statesmanlike way, to overcome image problems in America and elsewhere."

Japanese industrial interests contributed significant amounts toward the construction of two of the three newest buildings on the YFU campus near downtown Washington; one building is called the Japan Building, the other the Datsun House. The Toyota family became involved personally in helping YFU expand, Richardson says.

For a long time, he says, YFU was "a very quiet, little-known program, tucked away in Ann Arbor." Financed by local businesses, church groups and Rotarians, YFU brought a small number of German and Austrian youngsters to live with families in the Ann Arbor area for a school year, as a gesture toward a future of peace.

MAJOR CORPORATIONS began to support YFU in 1977. A year later the organization moved to Washington, took on international board members and brought in Richardson, who, among other accomplishments, served as chief executive officer of Radio Free Europe.

Under Richardson, YFU has expanded student exchanges between the United States and 24 other countries; about 7,000 students take part every year. The students stay with a like number of volunteer host families. Nearly 100,000 high school students have participated since 1951.

These include nearly 500 students in families of employes of more than 60 American and foreign firms involved in YFU's scholarship program. The program was started a decade ago, through the joint efforts of Toyota and the Firemen's Fund Insurance Companies. Participating businesses provide financial support, but YFU selects the students, to avoid charges of favoritism within the sponsoring firms.

In some countries, like West Germany, YFU has become the largest and best known of the international exchange programs. The third of the three "foreign" buildings on the Washington campus is named the German Building.

YFU's annual budget now is about $18 million. Almost all of its funds came from private sources until this year, when it received $580,000 through the Reagan administration's International Youth Exchange Initiative.

The President's initiative has received pledges of more than $3.5 million, mostly from corporations, in the first year of a three-year fund-raising effort. One reason the Reagan plan has gotten off to such a solid start is because of the involvement of organizations like YFU, where, Richardson explains, "the powerful involvement of people throughout America has helped us reach out across the world." □

YFU President John Richardson briefs young Americans on a new project allowing students to train abroad in specialized sports like soccer, rugby and skiing.

Shaky About Joining The Family Firm?

PHOTO: DAVID VALDEZ

The decision to join or not to join can be difficult for children and parents alike. But help is available.

By Sharon Nelton

DORIS Mattus Hurley, 42, president of Häagen-Dazs Franchise, Inc., the nationwide chain of ice cream "dipping" stores based in Englewood Cliffs, N.J., was in her early 30s before she did it in 1974.

But Terry Squibb, 30, purchasing and inventory control manager of Welders Supply Inc, of Dallas, did it as soon as he got out of college.

So did Edward R. Schwinn, Jr., 34, president of the Schwinn Bicycle Company in Chicago.

What they did was join the family business. And although, as Schwinn warns, being a member of a family business is "not a piece of cake," the three are satisfied with their decisions. "Everyone is working together for a common goal, the success of the company, because it's *ours*," says Schwinn, whose great-grandfather started the firm in 1895.

Deciding whether or not to join a family firm can be an agonizing experience. Often children are tormented by feelings of disloyalty when they turn their backs on the business. Many parents feel betrayed or rejected when their children decide to do something else. One tough-minded Iowa company president admits that when his son finally decided to join the family firm, "I sat down and cried like a baby."

There are an estimated 12 million family-held businesses in the United States. Most experts agree that only 30 percent or so survive into the second generation as family firms; less than 15 percent make it into the third. Some are merged or acquired, and some simply go out of business.

Whatever a company's fate, employes are affected. According to Léon A. Danco, who heads the Center for Family Business, a consulting firm in Cleveland, a whole town may be hurt by heirs' inability or reluctance to continue a large family enterprise.

Furthermore, the younger generation can be vital to the quality of management in a family firm, observes Peter Davis, director of the Wharton Applied Research Center at the University of Pennsylvania. It is often difficult for smaller companies to attract top-rate managers, he explains, and young family members are frequently brighter and abler than management the company can attract from outside.

Among the points a young person must consider in making the decision, experts generally agree, are these:

- Do you *really* want to join the family firm? Would you enjoy it? ("The world doesn't need a reluctant heir," says Danco.)
- Are you prepared to join it? Do you have the education? Experience from another company?
- What alternatives do you have?
- Can you work with your parents or other relatives in the company? (Says Schwinn: "We are a tight, loving family. We all like each other. It makes it a good deal easier. If you don't have those basics, you are not going to have a happy time.")
- Are you interested in the company's products or services? If not, are there other aspects of the business—such as marketing or management—that offer excitement?
- Are you comfortable with inherited wealth? (Not all family businesses result in wealth for the younger generation, but many do.)
- If you were eventually to take over the company, would you have the energy and commitment required?

For some heirs, joining a family business brings unexpected rewards—such as a strengthened bond with one's parents. Doris Hurley had little interest in joining Häagen-Dazs Ice Cream, founded by her parents, Reuben and Rose Mattus. Before her children were born, she worked in the office, and she had had enough of that.

After she thought her children were old enough, she went to work as a sales representative for another company. When she was offered a promotion a year later, her father made a more attractive bid, and she accepted. Not long after, she convinced him she should launch the franchise operation, which now numbers over 260 stores.

(The Pillsbury Company acquired the Häagen-Dazs companies earlier this year, but family members retain the top management positions. They include Kevin Hurley, who is president of Häagen-Dazs Ice Cream and who became Doris' husband three years ago.)

PHOTO: JARROLD CABLUCK

Charley Squibb (left) has laid out a plan that will gradually transfer ownership of his Dallas welding supply firm to sons Terry (center) and Randy.

The Häagen-Dazs ice cream clan: Founders Rose and Reuben Mattus (left) with Doris Mattus Hurley and her husband, Kevin. Doris started the firm's franchise operation.

"As a child, you don't necessarily understand what is going on when you have parents who are completely dedicated to their business," says Doris Hurley. Because she had an opportunity to become part of the business, she says, resentments she felt as a girl have been dispelled, and she has a great deal more understanding of the sacrifices her parents made in building the company. She admits it can be emotionally difficult for family members to work together. But, she says, "our extraordinary feelings about the business and the product override any other consideration we have."

JUST AS HARD as deciding to join the business is sticking with it. Welders' Terry Squibb admits to a period of unhappiness when there was just not enough communication between him and his brother, Randy, the firm's sales manager, and their father, Charley.

"My dad had told us he was going to retire in 1985," recalls Squibb. "I didn't think I was being prepared to take over. I wasn't sure he would teach us what we needed to learn." There was uneasiness between the brothers about who would succeed their father and how the stock would be shared.

The Squibbs got help. All three have attended seminars and programs at Danco's center. Terry Squibb also underwent aptitude testing that boosted his confidence by showing him how good he is at paper work and by indicating talents—like a potential for selling—that he did not know he had. His father listened to a taped analysis of the test and, Terry says, "we had a starting point." Now, he reports, the two of them can talk to each other without getting angry within 10 minutes.

Charley Squibb still plans to retire in 1985, but he is no longer leaving his sons in the dark. He has laid out a stock transfer plan for the next 12 years that will result in the brothers' having a 50-50 partnership in the firm.

Once in the company, some young people cannot get up the courage to leave it, even if that would be best. Compounding their unease may be doubts they have about themselves—"Could I really make it on my own?"—and the stigma that often goes with being an heir. In some circles, heirs are said to belong to the "golden sperm club."

Indeed, notes Danco, some heirs have great difficulty dealing with wealth because they associate it with evil.

"Why are you hung up on the fact that you are inheriting money?" Danco asks young people who attend his seminars. He tells them that they should learn to handle wealth just as they might handle other unearned privileges, like health, good looks, athletic ability or being born in the United States. "Accept that you are privileged," he counsels, "and work like a dog to be worthy of it. You have to make a contribution."

But he adds: "If you can't be comfortable in the family business because of hang-ups, don't go into it."

PEOPLE LOVE TO TALK about the problems of being in family businesses, observes John Messervey, executive director of the National Family Business Council in Chicago. He illustrates with a chance encounter:

He was sitting in the anteroom of an auto repair shop while his car was being serviced. Also waiting was a young man who turned out be the son of a sausage manufacturer whose company did \$100 million or so a year in sales. The stranger began to unburden himself and finally lamented, "I don't want to make sausage the rest of my life!"

Messervey warns that a son's or daughter's decision to join the family firm carries heavy emotional freight, bound up as it is with their relationship with their parents. Unless the heirs understand what they are getting into, the decision could lead to disappointment and disillusionment that threaten not only the parent-child relationship but also the business.

When the going gets tough for an

heir or the family, it is time, Messervey says, to get professional help from a clinical psychologist specializing in family business issues.

One such specialist is Matilde Salganicoff in Philadelphia. In addition to her private practice, she is on the staff of the University of Pennsylvania Center for the Study of Adult Development.

"Unfortunately," she says, "most of the people I work with remain in the family firm out of inertia or because they're afraid to go into the outside world. It's not a thought-out decision."

THE MAIN THING, she says, is for the young person to know what he or she wants to do. And that can be extremely difficult if parents are pressing a son or daughter to go into the business.

Salganicoff advises young people to work outside the family business before they make a final decision. Outside experience will prove they can make it on their own; they need not be nagged by lingering doubts. It will also help them gain credibility with the family firm's employes. And they will learn things that they would not learn otherwise. "It's like going to a different country," Salganicoff says. "You always come back enriched."

Other ways to help determine what one really wants to do include a lot of talking about the issue with family and friends, reading and taking courses. Salganicoff also suggests simply making a list of what one likes to do best and what one likes to do least.

"The essence of the whole process is not to betray yourself," she says. "Do what you really like to do."

PHOTO: CARL SKALAK

"The world doesn't need a reluctant heir," claims Léon Danco, who heads a family business consulting firm.

She cautions both parents and children not to close the door. If the young person chooses the company initially, he should have the freedom to leave later. If he at first decides against the company, he should be allowed to change his mind.

Another major issue for the young person, she says, is the need to become independent. Everyone must gain independence no matter where he or she works, but it is more difficult to do so in a business where the owner is one's parent. For the offspring, she explains, it is like being an adolescent again. The parent may send double messages: "Be dependent but independent" or "Be creative but consult me first."

A young person may join the family firm because it offers an easy way to get employment in a tough job market, according to Léon Danco. "Add to that the potential for getting paid more than the going market rate, and you have a heavily baited hook. It looks like guaranteed security."

Danco warns, however, that "if an heir joins a family business with anything other than competent hard work and a sense of teamwork in mind, sooner or later he or she is going to get badly burned." The heir who does not make a contribution will be resented by those who do. Failing to attain a key management position, he may eventually have to live with the insecurity of having his fate in someone else's hands.

There are also wrong reasons for staying out of the business, Danco points out. Inability to get along with Dad (or Mom) tops the list. Danco urges young people to understand that the experiences the parent is going through—teaching a successor and preparing for retirement—are new to him and that he may be just as confused as his offspring.

If joining the firm is attractive in most other ways, making the attempt to get along is worthwhile, Danco says.

With all the stigma and challenges and family conflict, why stick it out in the family business? Opportunity for self-employment is the No. 1 reason, according to preliminary research conducted jointly by John L. Ward, professor of management at Loyola University in Chicago, and Donald J. Jonovic of the Business Succession Resource Center in Cleveland. Family expectations, an opportunity to share interests and commitments with loved ones and a sense of belonging are among other reasons cited.

Salganicoff points out that a family business offers an opportunity to be creative, even though the young person may not have the challenges of starting and building an enterprise, as his parents did. The heirs, she says, "are not condemned to do the same thing that was already done in the business—in style, process or products. There's flexibility."

Adds Danco: "The real fun of business lies in preparing for the future, in planning for change, adapting to conditions, moving a company toward its full potential—often in directions significantly different from its present products or services." Too few entrepreneurs, he contends, convey the fun and joy of business to their children. □

For Further Information

If you or your children are having trouble deciding whether to join the family firm, help is available. Some sources:

• "The Next Generation of Family Members in Family-Held Corporations," a four-day workshop sponsored by the Wharton School of the University of Pennsylvania, will look at survival skills for family business members and address the question "Do I really want to be in the family business?" It is scheduled November 7–11 in Palm Springs, Calif., and, tentatively, Feb. 13–17, 1984, in Orlando, Fla. Write the Wharton Applied Research Center, 3508 Market Street, Suite 100, Philadelphia, Pa. 19104, or call Jacqueline Smoczyk at (215) 898-4470.

• "Becoming a Family Business Successor," a once-a-year conference offered by the Center for Family Business, 5862 Mayfield Road, P.O. Box 24268, Cleveland, Ohio 44124, is aimed at sons and daughters ages 17 to 26. Topics include points to consider in determining whether you are suited for a career in the family business. Next date: July 19–21, 1984.

• "A Guide to Family Business Counselors" lists psychotherapists and clinical psychologists across the country who specialize in working with people in family businesses. It is available from the National Family Business Council, 8600 W. Bryn Mawr Avenue, Chicago, Ill. 60631. The Council also expects to hold three seminars in 1984 aimed at helping sons and daughters decide whether or not to join the family business.

• Siblings in business together will be the topic of a seminar to be held next spring by Loyola University in Chicago. For dates and other details, write the Center for Private Enterprise, Loyola University, 820 N. Michigan Avenue, Chicago, Ill. 60611.

When The Government Gives Away Companies' Trade Secrets

ILLUSTRATION: WILLIAM COULTER

The Freedom of Information Act has caused headaches for business. Will Congress provide relief ?

By Tony Mauro

IT WAS A DISCLOSURE that almost cost the Monsanto Company millions of dollars. A competitor, using the federal Freedom of Information Act, had sought government data concerning Monsanto's highly profitable herbicide Roundup—a product with worldwide sales estimated at $500 million annually.

Through what everyone agrees was an honest mistake, an Environmental Protection Agency employe responding to the request released secret information that would have made it easy to duplicate the formula for Roundup.

Monsanto officials, routinely reviewing requests for disclosures about their company's products, immediately spotted the error and sued successfully to get the information back. The lawyer who had filed the request on behalf of an unnamed company promised the data would not be used, and the EPA agreed to block any copycat product from reaching the market.

The incident occurred in May, 1982, and Monsanto spokesman Tom Slocum says it now appears the potentially enormous damage the disclosure might have caused has been averted.

"To develop and test a pesticide takes 10 years and $25 million," says Slocum. "The value of this type of information is not just money, it is also time and methods and procedure. Releasing this information would give another company an insightful shortcut, a window into the thinking of the company."

TONY MAURO *is the Supreme Court reporter for Gannet News Service.*

The Freedom of Information Act is used to gain access to the millions of pieces of paper that the government gathers—and that businesses and individuals submit. Documents ranging from Securities and Exchange Commission files to Food and Drug Administration license applications are open for scrutiny under the act. Census and income tax data are exempt, and "trade secrets"—secret formulas or designs—are supposed to be, too, but business contends that the term has been too narrowly defined and that too much secret information is being released.

(For advice on how to protect your trade secrets—and on how to obtain legitimate information from the government—see page 65.)

A series of corporate "horror stories" like the Monsanto episode has the business community clamoring for changes in the FOIA. "Commercial espionage use of the act is expanding," says James T. O'Reilly, a lawyer for Procter & Gamble.

The U.S. Chamber of Commerce has told Congress of the special harm done by disclosures of information submitted to government by small businesses, which "historically do not use patent protection" and do not have the manpower or legal expertise to fight disclosures. The Chamber also cites increasing use of the act by foreign competitors who seek information on American companies as a way to cut research and development costs. A number of U.S. companies—Sikorsky Aircraft, Air Cruisers and Dow Chemical among them—have dropped out of bidding or have seen their products copied elsewhere because of this problem.

Three economists at Babson College contend that disclosures under the FOIA, especially in the pharmaceutical industry, have actually altered the "life cycle" of certain products. New drugs are being introduced abroad to avoid FOIA disclosure here, they say; once a product enters the American market, it is quickly copied, especially by foreign firms.

BUSINESSES ALSO CITE, as a sign of abuse of the law, the growing number of service companies that file FOIA requests on behalf of businesses that want to remain anonymous.

The biggest such firm, FOI Services, Inc., of Rockville, Md., files 8,000 requests a year with the Food and Drug Administration alone, according to FOI Services' general manager, John Carey. The firm fills more than twice that number from FDA files that it has already obtained. Clients pay the firm $20 or $25 for each request.

Carey thinks that complaints about industrial espionage under the act are "hackneyed and overblown." As proof, he notes that fewer and fewer businesses are taking advantage of another service his company offers—alerting them

when someone else has requested data about them. "They decide that so few secrets are being given out that it's not worth it," says Carey. "If you look at the number of requests that are made and the number of trade secrets that are released, you'll see that it's only a fraction of 1 percent."

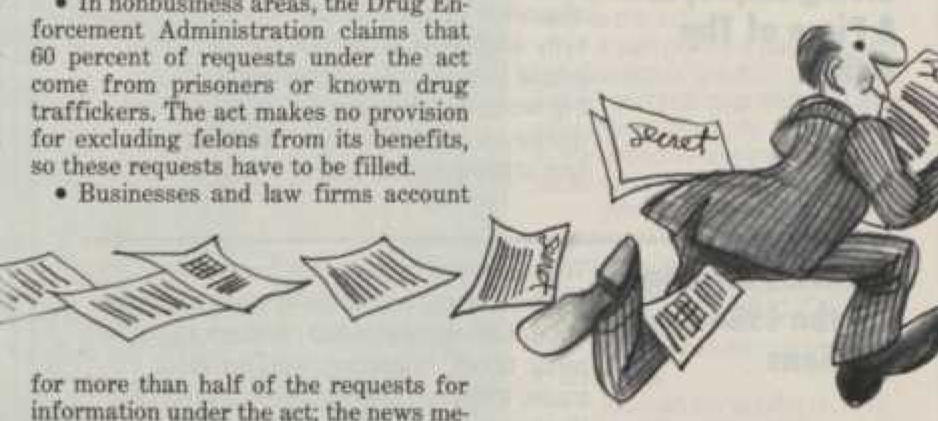
To many business people, that is a fraction of a percentage point too high. And many also point out that other kinds of damaging information can be disclosed under the act.

"Little bits of information can be put together with other bits of information" to create a fabric of useful data, notes Washington lawyer Frances Chetwynd, who often represents companies in FOIA disputes. "There isn't enough consciousness of this in the agencies that do the disclosing."

Some statistics show how the act has been used and, perhaps, abused:

- More than half of the FOIA requests received by the Justice Department's antitrust division are from actual or potential litigants in private antitrust cases seeking government data on their opponents.
- Of the more than 30,000 FOIA requests to the FDA, more than 70 percent are from drug companies or from firms that file requests on their behalf.
- More than two thirds of the requests filed under the act with the Federal Trade Commission come from corporations or their law firms; less than 15 percent come from the news media.
- In nonbusiness areas, the Drug Enforcement Administration claims that 60 percent of requests under the act come from prisoners or known drug traffickers. The act makes no provision for excluding felons from its benefits, so these requests have to be filled.
- Businesses and law firms account for more than half of the requests for information under the act; the news media represent less than 5 percent.
- Government costs of complying with the act, at first estimated at under $100,000 a year, now are pegged at upward of $50 million a year. The FBI alone employs more than 300 people to fill FOIA requests, mainly from individuals looking for files on themselves.

Congress is responding to the problem—slowly and incompletely, but surely. The Senate is weighing a package of revisions to the act (S. 774) that includes provisions aimed at ensuring that businesses will at least be notified



of what material has been requested about them and given a chance to fight such disclosures in court—before the cat is out of the bag.

Currently, predisclosure notice is a hit-and-miss thing. The FDA, for exam-

ple, rarely alerts a business that sensitive files are about to be disclosed. The Federal Trade Commission, on the other hand, has fairly strict procedures to ensure that a company is not surprised.

Even news media organizations, which have long resisted any change in the act, agree that consistent procedures are needed. "We have no objection to the notice language," says Richard Schmidt, a lawyer for the American Society of Newspaper Editors.

UNDER THE PROPOSED revisions before Congress, each agency would have to notify businesses when potentially sensitive data are requested. Some critics worry that such a change may merely bog down the release of information and serve as a convenient early warning system for businesses about to be sued. But passage seems likely in the Senate; House action will follow.

The bill also includes provisions barring FOIA requests by foreign nationals and felons. Business wants more changes, including a reduction in the burden of proof that a firm must shoulder to show why disclosure would be harmful.

Under a 1974 appeals court decision, a company seeking to prevent disclosure under the act must show that it will suffer substantial competitive harm if disclosure is made—a sometimes unprovable but nevertheless legitimate claim, especially if the data are about a new process or product.

The Senate reform package contains no change in this area, but business advocates are content with the procedural half-a-loaf for now. The act has a large and vocal public interest and civil liberties constituency in Washington that has fought changes for years, and Congress has been slow to make any changes at all.

First passed in 1966 and substantially amended in 1974, the Freedom of Information Act was billed as a law for the people and the press. Sponsors envisioned a flow of information for the public good. "If government is to be truly of, by and for the people, the people must know in detail the activities of government," Attorney General Ramsey Clark proclaimed when the law was signed. But 17 years and thousands of requests after the law's enactment, it has taken on a different cast.

Too often, it is charged, the law has been used not for the public good but for private gain. Instead of being a vehicle for keeping voters informed about government, says Sen. Orrin Hatch (R-Utah), it has been "a convenient tool for obtaining confidential information" about businesses. □

To order reprints of this article and article on page 65, see page 81.

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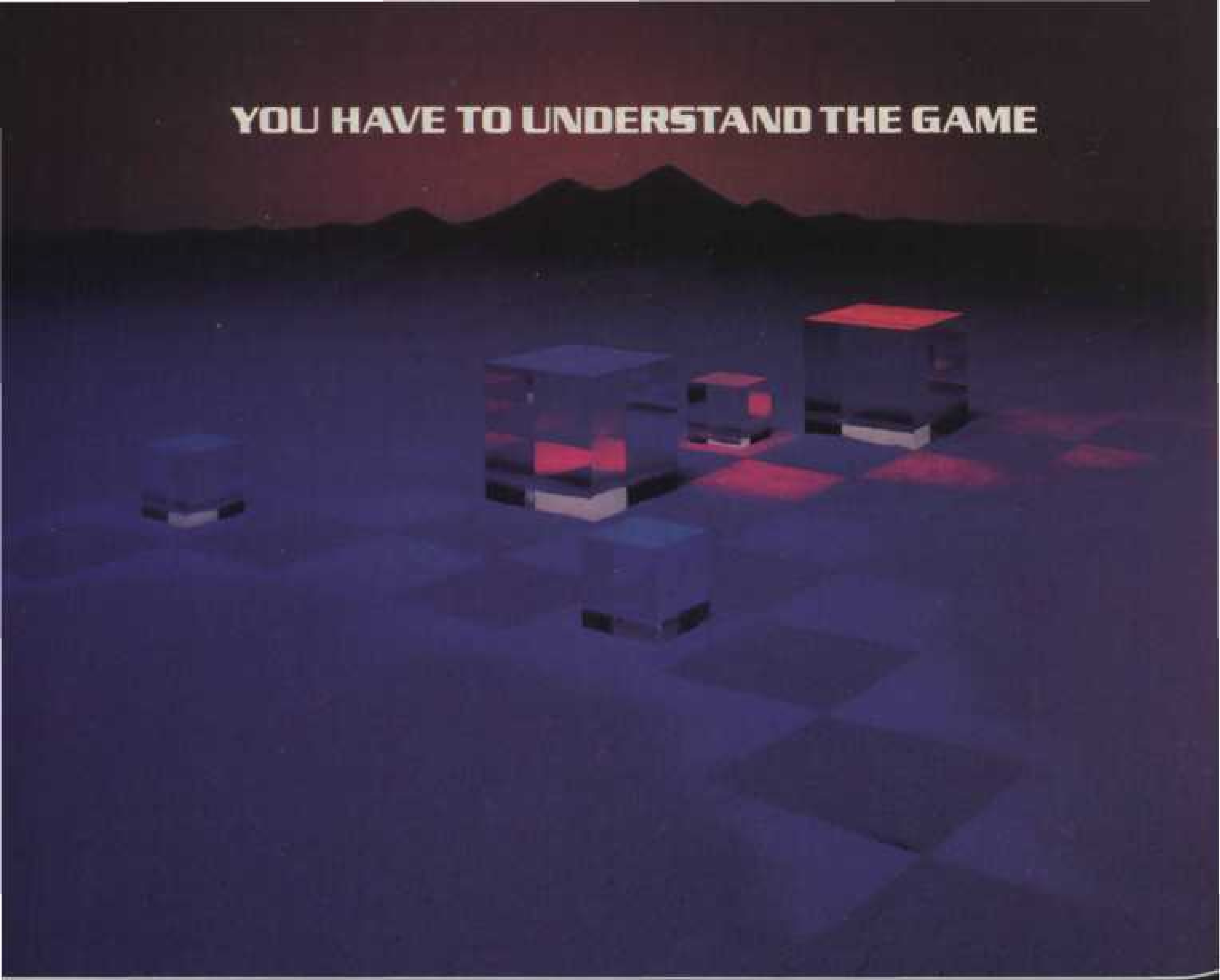

YOU HAVE TO UNDERSTAND THE GAME

How To Live With the FOIA

HOW CAN YOU make sure that the Freedom of Information Act will not be used to steal your trade secrets?

At the same time, how can you use the act legitimately to obtain information useful to you?

The answer to the first question is that there is no ironclad guarantee against unfortunate disclosure. Almost anything that you send to a federal agency could some day be requested by a competitor under the act.

"There is information throughout the government about business—Securities and Exchange Commission files, Small Business Administration applications—and under the law anyone can request it," says Eric Glitzenstein, director of the Freedom of Information Clearinghouse, a private organization in Washington. That includes competitors, foreigners, even felons.

Of course, one way to keep your secret is not to tell it to the government in the first place, although that may mean forgoing some government benefit or missing out on a government contract.

In many instances, however, disclosure to the government is required by law, so keeping the information to yourself is not an option. Still, there are perfectly legal ways in which you can minimize the risk of disclosure of important company data.

- Familiarize yourself with the rules of the particular agency you are submitting information to. For now, at least, policies on disclosure differ from agency to agency. In some instances, whole categories of information are routinely kept from disclosure, so your worries are minimal.
- Get in touch with the freedom of information officer for the agency in question. "Talk to the agency, find out if your submission will be placed in a public file, whether it will be routinely available," says Frances Chetwynd, an attorney who specializes in Freedom of Information Act cases.
- If you regard the information you are submitting as confidential, mark it as such—clearly, visibly, on each document or even each page. You might also mark the document with your name and phone number. Some agencies will call you if someone is requesting a marked document.
- Don't overuse the "confidential" label. Says James O' Reilly, an attorney for Procter & Gamble: "Some companies will claim that the color of their factory or the address of their plant in Detroit is confidential." Such insubstantial claims could damage your credibility and make an agency less inclined to warn you of impending disclosure.

On the other side of the fence, making a request under the act is fairly simple—especially if you are requesting information about yourself.

Many businesses now use lawyers or service companies to make their requests for them, as a way of keeping their own identities secret. But nothing bars you from making your own request for information.

One of the most frequent uses of the act is to find out how a government agency handled your bid, application or inspection. The agency may decline to send such information to you, especially if litigation is in the air. But nothing is lost in trying.

The biggest problem is how to frame a request properly. Simply asking for "everything in your files on XYZ Corporation" probably won't get you anywhere.

Agencies have widely differing filing systems that may not be cross-referenced to your satisfaction. Instead, tell the agency the context in which it may have a file on the subject you are requesting.

On the other hand, do not be overly narrow in your request. Agencies rarely volunteer anything you have not asked for, so adding the phrase "and other related documents" may be wise.

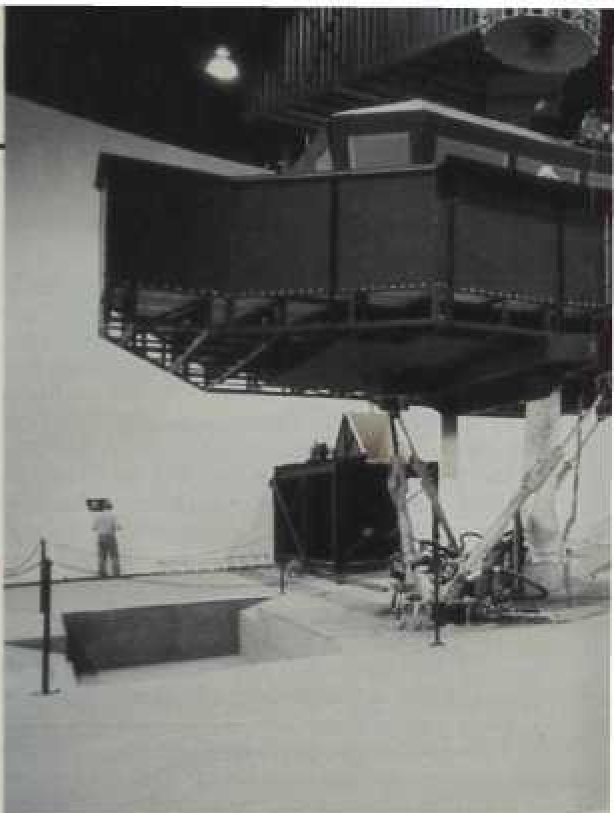
The Freedom of Information Clearinghouse gives the following tips:

- Address your letter to the "Freedom of Information Unit" at the agency in question.
- Mention in your first sentence that the request is being made "pursuant to the Freedom of Information Act, 5 U.S.C. 552."
- Offer an estimate of what you are willing to pay for the information you want. Agencies may charge you for both search time and reproduction costs.

One other point: Expect delays in getting your information. The law requires a response within 10 working days, but many agencies are swamped with requests and will not reply for weeks or even months. □

—Tony Mauro

"Games" That Pay Off On the Job



Simulators make it easier to master complicated machinery—and to eliminate costly mistakes.

By Henry Eason

BEYOND the supertanker's bridge the lights of a half dozen buoys and of a distant ship twinkle on the Persian Gulf. The bow of the supertanker moves easily down the fairway leading from the Saudi Arabian port of Ra's Ta-Tamurrah. The captain and his mates plot a course between the pin-lighted obstacles on the radar screen while engines rumble like a snorting monster, far below the helm.

The mariners are real, but everything else is being simulated thousands of miles from the oilfields, at the Maritime Institute of Technology and Graduate Studies, in Linthicum Heights, Md.

Here simulation has evolved to the state of the art. A computer has been programed to simulate the physical characteristics of the ship's channel and the traffic in it. The bridge, equipped with all the gadgets of a modern helm, is suspended above a motion platform capable of duplicating the pitching and rolling of a ship at sea. The scene outside the bridge's windows is a computer-driven television picture showing Persian Gulf conditions.

Simulation of sophisticated machine processes is moving from defense applications into numerous industries, bringing greater efficiency and safety. Some experts claim that simulation is the last phase before near-total automation in many manufacturing and energy-producing industries.

In the motion picture "WarGames," a fictional computer called WOPR (pronounced whopper) is programed to simulate global thermonuclear war—and to wage such a war. The U.S. military is not very far behind the movie in its simulator capabilities.

At the Naval Training Equipment Center in Orlando, Fla., warship officers are putting the finishing touches on NAVTAG (the acronym for Naval Tactical Game), a simulation of battles between the entire American and Soviet fleets. The many thousands of variables of firepower, steaming speed and defense armaments of actual ships and planes are plugged into the game.

Simulators are used to refine the training military men get in operating tanks, planes, helicopters and small arms and in performing numerous maintenance tasks. Commercial pilots have made simulators as much a part of their training as blackboards. And astronauts run through the entire range of their space missions on simulators that produce experiences identical to those they will encounter beyond Earth.

The private sector is benefiting from decades of research and engineering in simulating military, aviation and space activities. Within the past decade, the functions of power plants, oil refineries, maritime companies and industries that produce paper and chemicals have been simulated, both as a superb training exercise and as a research tool in looking for better ways to operate.

"Simulators are letting us do things we never dreamed of before," says Lt. Col. Rupert Fairfield, a Marine Corps officer on the staff of the Naval Training Equipment Center. "It is a nonlethal environment in which you can make your first mistake."

Helping you learn from mistakes without losing your fighter jet or nuclear power plant or supertanker is what simulation is all about. Hundreds of dangerous and costly malfunctions and other challenges are programed into machines operating complicated systems.

Simulators, says Robert Abeli, president of Link Simulation Systems, a division of the Singer Company, are becoming as "infectious as Atari games."

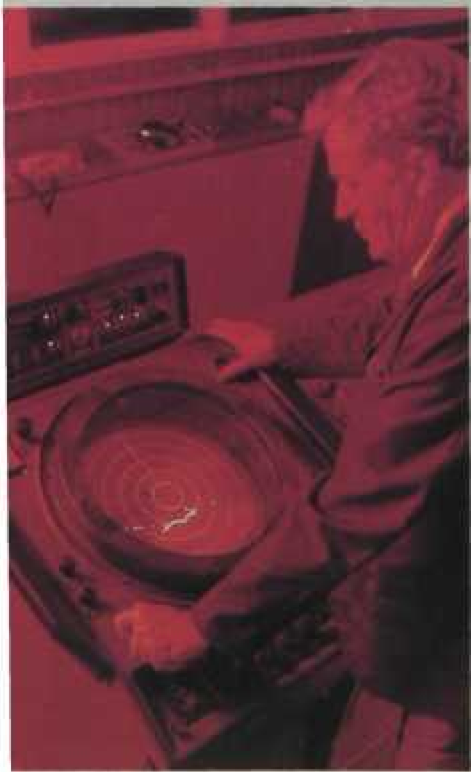
THE SIMULATOR "is the plant's technological policeman," adds Robert Taggart, the top salesman at Link, the nation's leading simulator producer.

In 1979, when General Public Utilities Corporation's nuclear power plant at Three Mile Island in Middletown, Pa., malfunctioned, simulator sales to power plants boomed. Four years later, 75 percent of the country's nuclear plants have their own simulators.

Before the Three Mile Island reactor overheated, its operators had been trained on generic simulators, which were used for personnel from many

Navy pilots "fly" simulators at the Naval Training Equipment Center, learning carrier landing techniques in realistic settings.

Simulating control rooms of nuclear power plants is becoming the power industry's first line of defense against malfunctions like the one at Three Mile Island.



On a simulated ship's bridge overlooking a simulated bow, mariners learn about navigational problems—without ever leaving the Maritime Institute of Technology.

PHOTOS: GARY KIEFFER

plants. Link promotes simulators identical to the control rooms that operators will be working in after their training. Last summer Link sold a simulator made for the Three Mile Island plant.

At its factory near Columbia, Md., Link is assembling simulators for a dozen power plants around the world. Abeli believes the nuclear plant simulator market will soon be saturated, but he foresees new markets for simulators in electricity plants using fossil fuels and in many other industries.

"We can build a replica of an entire operation, feed it through the computer and model a plant," says Link's public relations manager, Lewis King. "The trend is toward larger, more efficient plants. We can give an operator information about what's going on in the entire system. It's the last step before complete automation."

Depending on the complexity of the tasks, simulators cost between $500,000 and $8 million. That could be a bargain, says a report by International Research Development, a market research firm.

"When new employes are assigned to a plant," the report says, "they often have no knowledge of process operations. Manuals are usually written for engineers or experienced operators and are difficult for the greenhorn to interpret. Also, reading a manual does not quite give the worker a feel for the dynamics of process operations. Simulator training can cost the company around $1,000 per student per week, but compared with the potential cost of a plant shutdown, this is minimal."

Other simulator enthusiasts argue that efficiency in the use of fuel and raw materials can be learned through simulation exercises. Operating costs can thus be reduced by far more than the cost of investing in a simulator.

THE SIMULATION FIELD is making great strides. New applications are being discovered rapidly in ways that create cross-pollinating effects. Ken Bosomworth, who wrote International Research Development's report, says, "There is a lot of interchange between the military and the private sector, flowing both ways."

Gary Martin, technical director of the Naval Training Equipment Center, and others in the Orlando area are working to create a simulation complex, where private electronics firms, government personnel and University of Central Florida faculty and students can conduct research together. Simulation courses are appearing in the curricula at UCF and a few other schools around the country. Simulation "has greater applicability to industry than we ever realized," says Martin. "Its greatest potential is for business."

International Research Development forecasts that general industrial use of simulators "will increase almost threefold over the next 10 years."

Says Link's King: "We can simulate almost anything. We're assemblers. If a company gives us the data and a blueprint, we will produce a model."

When Link is simulating the control rooms of power plants, it often orders equipment from the same manufacturer that produced materials for the actual control panels. When an operator leaves his training simulator to start his job at a power plant, he sees its twin and is able to begin work immediately.

At the Maritime Institute of Technology, masters, mates and pilots can learn new ship operation processes and check out on types of vessels they have never sailed. Its instructors can test their students on simulations of 32 types of ships and of numerous ports throughout the world. Other simulators teach marine engine room control, cargo handling, radar interpretation and dozens of other ship's functions.

Richard Allen, a veteran sea captain who recently completed a course on navigating supertankers at the institute, had a look of seriousness and concentration on his face as he called instructions on the bridge. "It gives you the actual feel of a heavy-ladened vessel at sea," Allen said. "It backs up a lot of practical experience and gives you more confidence."

That is the message the emerging simulation industry is trying to send to American business. □

Choosing a Money Manager

The more you have to invest, the more choices you have.

By Ray Brady

HERE IS the problem: You have made some money, and you would like to invest it. You know your own business pretty well, but you do not know that much about financial investments. Even if you did, you do not have the time to watch them every single day—and that is a necessity in this day of fast-moving markets, when an investor can be whipsawed in one or two sessions.

So you have to find someone to manage your money.

Walter Mintz, a private investor and a limited partner in Cumberland Corporation, one of the most successful of money management firms, says this is what you should be looking for:

"In a period when the stock market is acting sloppy—say, the Dow Jones industrial average is up or down only 5 percent for the full year—then a first-rate manager should be able to earn at least 25 percent a year on your money, including the dividends on the stock you own.

"If he's merely a good manager, then he should earn you about 15 to 20 percent, again including dividends."

How do you find such a manager? "The choice," says Robert Stovall, senior vice president of Dean Witter Reynolds, "depends on your investment aims—and your financial position."

A money management firm, which can be either independently operated or part of a brokerage house or bank, will probably charge you to manage your money—somewhere between .25 and 1 percent of your assets, quarterly, is the usual fee—but you then will pay lower commissions on stock purchases and often no commissions at all.

The catch: Many money managers require that you have at least $300,000 to $500,000 to invest. "Half a million is peanuts," says one such manager.

If you have less money—say, $100,000 to $300,000—you may be better off with a registered representative in a brokerage house, one who can recommend what to buy and sell, acting in effect like a money manager. "Your account will mean more to him," says Mintz, "so you're likely to get better service and handling."

(If you have under $100,000, Mintz believes that you would be better off in a mutual fund, where your commission charges will run less. The one drawback, he adds, is that the fund won't be tailored to your investment needs.)

Once you have determined your goals—and what type of service you need—you face the problem of finding the person who will be right for you. Semon Wolf, a registered representative at Prudential-Bache, in New York City, says he gets many of his customers through referrals, and he believes that is the best way.

"Talk to other business people," he advises, "and ask them a few basic questions, such as whether they have someone they're pleased with. Then find out how long they have been with that person, because almost anyone can make money for you in a one-year period, if the market is running right. Then try to see how well that person did over a fairly long period of time."

> Handling a portfolio is like coaching football—it looks easier than it is.

Whether your funds end up in a bank, a brokerage house or a customized investment service, it is important that you meet—and know—the person who will be handling your money. Often the customer will meet the smiling, gracious bank or brokerage vice president, who seems knowledgeable and alert.

Only down the road does the customer find out that the basic decisions on buying and selling are being made by some 25-year-old who may be alert, but who is not all that knowledgeable.

Once you meet him, it is only right that you give precise instructions on just what you want: You may want your manager to speculate, to run up the size of your portfolio. Or you may want high dividends, with little growth (or risk). Either way, it is important that you present a clear idea of your needs.

If you are going to pay commissions on each buy or sell order (as opposed to a management fee), this is the time for you to start bargaining. Provided your account is at least fair-sized, you should be able to get a discount from the standard commission rate.

Don't be afraid to bargain: Brokerage commissions are sky-high these days. With a little discussion, you can probably get about 20 percent off the standard commission—with more later on—and that kind of saving can add up over the years.

All the professionals add one more caveat: Once you select a manager, don't second-guess him. There is no such thing as a professional who is always right. There will be trades that go wrong, and reversals in an industry on which your representative was high. Handling a portfolio is like coaching a football team—it looks vastly easier than it is. (If that were not so, you could do it without professional help.)

NOW COMES THE most difficult question of all: Do you give your manager or broker full discretion, letting him buy or sell stocks and bonds as he sees fit, without first clearing it with you?

Walter Mintz, after years as a professional money manager, is one who believes in full discretionary powers. "If a broker or registered rep has to call you on a sale," Mintz points out, "by the time he gets to you, the stock may have plummeted in value—and the customer is the loser."

(Mintz does advise, however, that an investor keep an alert eye on his confirmation slips, just to make sure that the account is not being "churned," that stocks are not being bought and sold simply to make commissions for the broker.)

Churning aside, what if you simply cannot trust your investment manager enough to give him that full discretionary power? "Then," says Mintz, "find another one." □

RAY BRADY *is the business correspondent for CBS News.*

Environmental Gridlock

Congress can't seem to get moving on seven major laws that have expired.

THE CLEAN AIR ACT, one of the nation's landmark environmental laws, expired more than two years ago. The Clean Water Act, another basic statute, expired more than a year ago.

They are among seven major environmental laws that Congress failed to renew by their respective deadlines and that are still awaiting reauthorization on Capitol Hill.

Enforcement of the statutes continues, however, because Congress has provided funding through the appropriations process, a legislative channel separate from the reauthorization machinery.

Washington frequently operates on the cynic's version of the golden rule: He who has the gold makes the rules. Regulators are powerless to enforce duly enacted laws for which no funding has been provided, but they can enforce even expired laws as long as they have the money to do so.

Says a spokesperson for the Environmental Protection Agency: "Just because a law's authorization expires, our mandate to enforce it does not change."

In addition to the air and water acts, environmental measures that have expired but are up for renewal include those dealing with hazardous wastes, drinking water, pesticides, ocean dumping of wastes and toxic substances.

Congress is also considering reauthorization of legislation to revise a 1980 law that created an industry-financed fund to clean up dumps for hazardous waste.

Why the logjam on environmental legislation? "Congress has been unable and unwilling to address these laws from a policy perspective," says Mark Gallant, environmental issues specialist for the U.S. Chamber of Commerce.

Competing interest groups are making so many contradictory demands on environmental requirements, he adds, that Congress has become neutralized on many of the pending issues.

Other factors have contributed to the delay, Gallant says. They include highly sophisticated analytical techniques—developed since the first environmental laws were passed—that permit identification of more and more substances that one group or another insists should be regulated.

"Just because you can identify something doesn't mean it's a threat," Gallant says, "but a lot of people want Congress to use that assumption when it is framing environmental laws."

PHOTO: D. FRANKEN—SYGMA

One of the few major environmental laws still in full force is the Superfund law, which provides funds for cleaning up hazardous waste dumps. But changes in it have been proposed.

Capitol Hill sources also cite this year's upheavals at EPA as a factor in delaying action on regulatory laws enforced by that agency.

This is the status of the major environmental bills pending on Capitol Hill:

Clean Air Act. Action on renewing this law, which expired Sept. 30, 1981, was delayed by a sharp conflict within the House Public Works Committee's Democratic majority. Since then acid rain has become a major issue in discussions about reauthorizing the act. EPA is developing a position on the issue. Environmentalists believe acid rain results from sulfur dioxide and nitrogen oxide emissions by motor vehicles and by industrial plants burning fossil fuels. Proposals for dealing with the problem would, if adopted, cost billions—money that would be added to consumer bills. Extensive debate on the subject is expected to continue for some time.

Clean Water Act. Action is likely in the Senate this fall on renewal of this law, which expired Sept. 30, 1982, but proposals under consideration in the House and Senate are so far apart that final congressional action is unlikely until next year. The Senate has moved faster than the House on this reauthorization; the House has a long way to go even to complete committee consideration.

Hazardous wastes. A key issue in renewal of the Resource Conservation and Recovery Act, which expired Sept. 30, 1982, is whether to reduce the threshold at which a generator of hazardous waste comes under regulation by the act. One pending proposal would put controls—and the attendant paper work—on many small businesses now exempt from the act because of the small amount of waste they generate.

Drinking water. Proposed House amendments

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to the Safe Drinking Water Act, which expired Sept. 30, 1982, would require EPA to set allowable levels of 14 chemicals found in water supplies and establish monitoring programs for more than 125 others. The reauthorization bill also contains prohibitions against groundwater contamination. Controlling disposal of brine from oil and gas drilling operations is one of the proposed steps.

FIFRA. The House has passed a one-year reauthorization of the Federal Insecticide, Fungicide and Rodenticide Act (it expired Sept. 30, 1982) in response to an environmentalist strategy designed to achieve major revisions. A longer authorization would have eased pressure on Congress to meet the environmentalists' goals. A bill for a two-year extension is pending in the Senate Agriculture Committee, but that panel has no plans to consider major revisions this year.

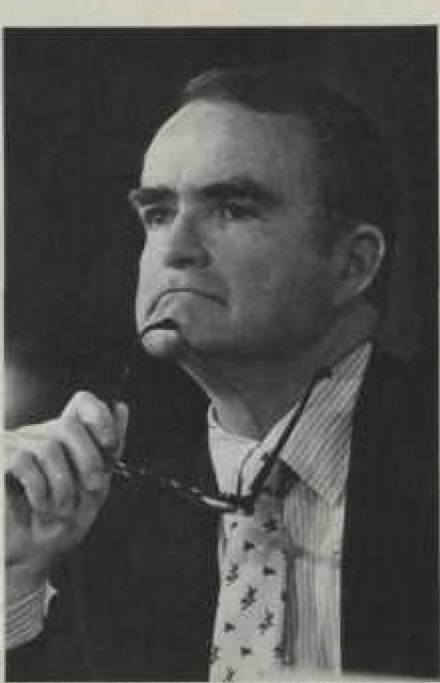
Ocean dumping. The ocean dumping section of the Marine Protection, Research and Sanctuaries Act expired in September, 1982, and the marine sanctuaries section expired a year later. The House Merchant Marine Committee has passed a reauthorization bill requiring designation of permanent dump sites and setting permit fees. Amendments pending in the Senate Commerce Committee would recognize rights of holders of offshore oil and gas leases in sanctuary waters and would give fishing interests a role in the regulation of their industry within protected areas.

Toxic substances. There has been relatively little controversy over implementation of the Toxic Substances Control Act, which expired September 30, but Congress has been in no hurry to enact the reauthorization bill. Any legislative activity could lead to environmentalist pressure for amendments to require testing of new chemicals—and to counterarguments that any such program should be voluntary.

Superfund. The Comprehensive Environmental Response Compensation and Liability Act—the Superfund law—does not expire until September, 1985, but bills to change it are pending. At present the fund, which covers costs of cleaning up hazardous waste dumps, is financed by a tax on petrochemical feedstocks. Proposed changes would replace that arrangement with a system of fees for disposal of wastes on land. Other Senate measures would extend the Superfund for five years and increase its ceiling to amounts ranging from $3.2 billion to $6 billion.

The general expectation is that Congress will not complete action before next spring on the major environmental laws still awaiting reauthorization. There may be further delays even then. The 1984 political season will be well along by next spring, and the lawmakers may be wary of making controversial environmental decisions. □

—Mary-Margaret Wantuck



One factor in congressional delays: The turmoil that culminated in the naming of William Ruckelshaus to head EPA.

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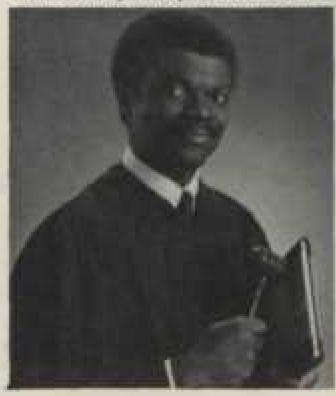

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The U.S. Capitol Historical Society, a private group that serves a public purpose, meets annually in the Senate's original 19th century chamber, with founder Fred Schwengel presiding.

Capitol Capitalism

A former congressman runs a private society that helps keep American history alive—and saves taxpayers' dollars.

By John F. Barton

If Congress wants to find an example of how well private enterprise can work, it need look no further than a ground floor booth in the Capitol itself.

That is where the U.S. Capitol Historical Society sells its books and pamphlets, all published at no expense to the taxpayers. Millions of the American and foreign tourists who visit the Capitol return home with the society's publications, which give them a better understanding of the United States' representative form of government.

Fred Schwengel, a former Republican congressman from Iowa, founded the society in 1962 and is still its president.

Profits of the society, which is chartered in the District of Columbia as a nonprofit educational organization, are "funneled back into the Capitol," Schwengel says. "Since we began, we have underwritten projects, acquisitions, restoration, new art and research worth over a million dollars."

He cites, as an example of how private enterprise can improve on government's performance, the congressional calendar that the society publishes annually.

Eleven years ago, he says, a member of Congress urged him to print a calendar "and let the fellows either buy this one or take the one printed by the government. The government prints a calendar that members of Congress can give away. It's just one picture, with no historical information at all."

The society printed a calendar with a full-color photo of a popular Washington landmark on each month's page, along with information about events that led to the adoption of the U.S. Constitution.

The response to the calendars has been overwhelming, Schwengel reports, to the point that 90 percent of the members of Congress now choose to give away the society's calendar instead of the government's. The society sells 1 million calendars to Congress annually—950,000 to House members and 104,000 to senators.

This change has meant a saving of tax dollars, Schwengel points out, because the society's calendars cost so much less than the government's. Schwengel recalls that Rep. Peter Kostmayer (D-Pa.) did a study that showed that "the calendar printed by the government cost $1.03, and we were furnishing this calendar—and getting a little profit out of it—at a cost of 53 cents."

Schwengel, who was born in Franklin County, Iowa, in 1907, has become something of a congressional legend. A Lincoln scholar, he possesses one of the nation's largest private collections of artwork about the former President, and he owns more than 300 books on Lincoln.

He also is a fitness buff, doing pushups and chinups, tumbling and working with weights for an hour every day—and then jogging for three miles.

Schwengel frequently leads groups on special tours of the Capitol. "Sometimes I take tours up to the top of the Capitol," he says. "I've been up and

John F. Barton *is a congressional correspondent for United Press International.*

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Everybody can be a winner when you don't know what the rules are. To get at the facts, GMC Truck decided to do some testing under controlled conditions at the GM Proving Grounds in Milford, Michigan, using recognized SAE Type II test standards.

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down over 150 times. It's a fantastic view."

The story of how Schwengel founded the Capitol Historical Society is a tale of business sense, political savvy and influence, and cooperation—in short, how things get done in the Capitol. He got the idea for the society soon after he arrived in Congress in 1955, beginning a 16-year career representing Iowa's first congressional district.

"I sought to join a historical society to learn about the history of this place, and there wasn't one," he says. The few books he could find about the Capitol "were inadequate and inaccurate."

Schwengel, who taught history and coached high school athletic teams as a young man, frequently expressed to colleagues his concern about the situation. He eventually caught the attention of Sam Rayburn, then Speaker of the House. Schwengel recalls: "Rayburn said to me one day, probably late in 1956, 'By damn, Schwengel, let's get some of us together and organize a society.' So we did."

But even with the backing of such political powers as Rayburn and Sens. Lyndon Johnson (D-Tex.) and Hubert Humphrey (D-Minn.), it took six years before the society was chartered in its present form.

FROM THE BEGINNING, Schwengel says, it was decided "to do what we were going to do without funds from the Congress, the reason being that if you took funds, you would be influenced by the people on the appropriations committees in writing history. And that's dangerous."

Schwengel says he "got all kinds of offers from congressmen" to see that Congress paid for his group's activities. One offer was from Carl Hayden (D-Ariz.), Senate president pro tem and chairman of the Senate Appropriations Committee.

"When Carl Hayden asked for something from Congress in those days, he got it," Schwengel recalls. "We figured we needed $250,000, and he said, 'That's no problem, we'll make it $275,000.' "

Schwengel stuck to his principles. His society's problems were solved by help from a successful private operation. The National Geographic Society financed the printing of brochures the Capitol Historical Society needed to raise funds from private foundations and the public.

Fred Schwengel often leads special tours of the Capitol, sometimes taking groups to the top of the Capitol dome. "It's a fantastic view," he says.

Later, after Schwengel addressed its board of directors, the National Geographic Society agreed, as a public service, to produce the first edition of *We, the People*, the Capitol Historical Society's first book about the history of the Capitol and still its best-seller.

The only quid pro quo was the privilege of taking separate pictures of the House and Senate in session for the *National Geographic* magazine.

"That was the challenge, because until that time no one had legally taken a picture of the House or the Senate in session," Schwengel says.

Speaker Sam Rayburn promptly agreed to let the *Geographic* take a picture of the House in session. But Schwengel ran into trouble in the Senate. Humphrey told Schwengel everyone approved the idea except Sen. Richard Russell, the powerful Georgia Democrat. The project, and probably the society, appeared doomed, since unanimous consent was required to approve the resolution.

Schwengel sought a meeting. Russell agreed to see him as a matter of congressional courtesy.

"What was in our favor," Schwengel says, "was that Dick Russell was a historian. I outlined the book, and I said, 'This is a story that people need to know. It ought to be made available to them. And the fact we are doing it without tax money ought to appeal to you. But to really make this go, we ought to have a picture of the Senate in session.' "

The meeting, scheduled for 10 minutes, lasted nearly an hour, with Russell asking dozens of questions. Schwengel told Russell of the arrangement to have the *National Geographic* take the photo, and he pledged to make the negative available to "anybody who has a legitimate claim, writes a book or an article, newspapers, whatever."

Russell looked out the window of his office overlooking the Taft Memorial for what seemed an eternity to Schwengel. "Finally, he turned and asked me, 'Did you work your way through college, Fred?' I said, 'I sure did.' He said, 'If you didn't, you should have been selling Bibles.' "

Even though Russell remained opposed to having the Senate photographed in session, "he told me," Schwengel says, " 'If you'll tell Hubert [Humphrey] to alert me when he's going to call this resolution up for unanimous consent, I'll arrange to be off the floor.' So that broke the ice."

THE SENATE joined the House in agreeing to the photographs, and the National Geographic Society underwrote the entire cost of researching, writing and printing 350,000 copies of *We, the People*.

"Now we've passed the 5 million mark, and the book is printed in German, French, Spanish, Japanese and Italian besides English," Schwengel says.

Thanks to the successful sale of publications and to contributions from foundations, firms and individuals, the society is wholly self-supporting. More than 5,000 people have paid a one-time, tax-deductible fee of from $10 to $1,000, "according to the generosity and interest of the individual member," for a lifetime membership, Schwengel says.

He is such an ardent supporter of the private sector that he has written what he terms "a Gettysburg-like address" titled "The Fifth Great Freedom: Free Enterprise."

Schwengel says that President Franklin Roosevelt and British Prime Minister Winston Churchill forgot to mention "possibly the most important freedom" when, during World War II, they outlined the Four Freedoms: freedom of speech and of worship, freedom from want and from fear. "When properly regulated," he says, "the freedom to compete promotes inventiveness and improved systems of production that benefit everyone." □

What Is *Your* 1984 Economic Forecast?

Results of this survey will appear
in a future issue of NATION'S BUSINESS.

Please check or write in the response(s) that best describe your outlook for the economy.

1. Do you expect the national economy to be better or worse in 1984 than 1983?
   - ☐ Significantly better 1-1 ☐ Unchanged 1-3 ☐ Significantly worse 1-5
   - ☐ Moderately better 1-2 ☐ Moderately worse 1-4

2. What is the highest level the prime rate will reach in 1984? ________ 4

3. What do you expect the annual inflation rate to be in 1984?
   - ☐ 3–4.9% 7-1 ☐ 7–8.9% 7-3 ☐ 11% or more 7-5
   - ☐ 5–6.9% 7-2 ☐ 9–10.9% 7-4

4. Each of the following items could help improve the economy in 1984. Using a scale of 1 to 6, please rank them for their importance in helping improve the economy. Use 1 as most important and 6 as least important.
   - ____ Lower interest rates 8
   - ____ Increased consumer spending 9
   - ____ Increased capital spending 10
   - ____ A reduction in government spending 11
   - ____ A reduction in federal regulation 12
   - ____ A reduction in state/local regulation 13

5. Each of the following items could threaten a healthy economy in 1984. Using a scale of 1 to 6, please rank them for their strength as threats to the economy. Use 1 for the strongest threat and 6 for the weakest threat.
   - ____ A sharp rise in interest rates 15
   - ____ A return to double-digit inflation 16
   - ____ An increase in federal taxes 17
   - ____ Continued high federal deficits 18
   - ____ Major defaults on loans made to Third World countries 19
   - ____ A decline in consumer confidence 20

6. How long do you expect the present recovery to continue?
   - ☐ Into 1984 22-1 ☐ Through 1985 22-3 ☐ Beyond 1986 22-5
   - ☐ Throughout 1984 22-2 ☐ Through 1986 22-4

7. Do you expect your business to do better or worse in 1984 than 1983?
   - ☐ Significantly better 23-1 ☐ Unchanged 23-3 ☐ Significantly worse 23-5
   - ☐ Moderately better 23-2 ☐ Moderately worse 23-4

8. Do you expect your gross sales to increase, decrease or not change from 1983 through 1984?
   - ☐ Increase 28-1 ☐ Decrease 28-2 ☐ No change 28-3

   Please specify percentage change ___% 29

9. Do you expect your net profits to increase, decrease or not change from 1983 through 1984?
   - ☐ Increase 31-1 ☐ Decrease 31-2 ☐ No change 31-3

   Please specify percentage change ___% 32

10. Do you expect employment in your company to increase, decrease or not change from 1983 to 1984? What percentage change do you expect?

Increase	*Decrease*	
☐ Under 10% 34-1	☐ Under 10% 35-1	☐ No Change 36
☐ 10–19.9% 34-2	☐ 10–19.9% 35-2	
☐ 20–29.9% 34-3	☐ 20–29.9% 35-3	
☐ 30% or more 34-4	☐ 30% or more 35-4	

11. Do you plan to start a new business in 1984?

☐ Yes 37-1 If Yes, what kind of business? ______________________ 38
☐ No 37-2

12. Do you plan to expand your business, adding new product lines or territories in 1984?

☐ Yes 40-1 ☐ No 40-2

13. Do you plan to build a new or expand an existing office or plant in the next:

☐ 1 year 41-1 ☐ 3 years 41-3 ☐ 5 years or more 41-5
☐ 2 years 41-2 ☐ 4 years 41-4 ☐ We have no construction or expansion plans 41-6

14. How many employes does your company have?

☐ Under 25 43-1 ☐ 100–499 43-3 ☐ 2,500–9,999 43-5
☐ 25–99 43-2 ☐ 500–2,499 43-4 ☐ 10,000 or more 43-6

15. Please indicate the type of company you work for or own.

☐ Construction 44-1
☐ Manufacturing 44-2
☐ Agribusiness/Forestry/ Mining 44-3
☐ Wholesale 44-4
☐ Retail 44-5
☐ Finance/Insurance/ Real Estate 44-6
☐ Transportation/Public Utility/ Telecommunications 44-7
☐ Service 44-8
☐ Other 44-9

16. Approximately what is your company's annual sales volume?

☐ Under $300,000 45-1
☐ $300,000–$599,999 45-2
☐ $600,000–$999,999 45-3
☐ $1,000,000–$3,999,999 45-4
☐ $4,000,000–$9,999,999 45-5
☐ $10,000,000–$29,999,999 45-6
☐ $30,000,000–$99,999,999 45-7
☐ $100,000,000–$499,999,999 45-8
☐ $500,000,000–$999,999,999 45-9
☐ $1,000,000,000 or more 45-10

17. Please indicate your title or position (such as CEO, President, Division Manager, etc.)

______________________ 46

18. What is your highest level of education?

☐ Attended high school 48-1 ☐ Attended college 48-3 ☐ Postgraduate study 48-5
☐ High school graduate 48-2 ☐ College graduate 48-4 ☐ Postgraduate degree 48-6

19. What is your personal income?

☐ Under $25,000 49-1 ☐ $50,000–$74,999 49-4 ☐ $200,000 or more 49-7
☐ $25,000–$34,999 49-2 ☐ $75,000–$99,999 49-5
☐ $35,000–$49,999 49-3 ☐ $100,000–$199,999 49-6

Let us hear from you. Please detach and return this survey to:

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Where I Stand

1. Minimum Wage: Raise It Again?

When the federal minimum wage was established in 1938, it was 25 cents an hour. Congress has raised it again and again over the years. It has been $3.35 since the start of 1981.

Now efforts are under way to get it increased again and even to tie it to the average manufacturing wage so that it could rise automatically. A bill in Congress would make the minimum $4.15, effective Jan. 1, 1984. Labor unions call for a two-step increase to $4.50 or more, and they also support setting the minimum at no less than half the manufacturing wage.

It is argued that a higher minimum would help the economy by increasing consumer spending and that standing pat would be unfair because inflation has cut buying power.

But it is also argued that a higher minimum would increase inflation, by having a multibillion-dollar impact on employer costs, and that the effect on consumer spending would be negative because of jobs wiped out and others not created. It is estimated that 644,000 jobs were lost as a result of the last increase.

Should the minimum wage be increased again?

2. "Social" Use Of Pension Assets?

Funds set aside by the private sector for pensions represent a major source of capital in this country—their assets approach $500 billion.

Many union leaders envision the funds as a major source of influence on economic and political trends.

Why, they ask, should not pension funds for unionized employes be invested in projects that help organized labor rather than in projects that do not? (For instance, why should a fund buy stock in a firm that locates in areas where unions are weak?) Also, they say the funds should not invest in companies with interests in certain countries (e.g., South Africa).

They ask changes in federal law to facilitate "social investing," in which pension funds accept smaller returns or larger risks.

But others say the funds already serve a social purpose—benefiting pension recipients—and putting another purpose ahead of that would be irresponsible. They note that the company, not the union, is responsible for seeing that there is enough money to pay promised benefits.

Should private pension funds be invested for social purposes?

3. What Course On U.S. Shipping?

It is called cargo preference legislation, but it is something most American exporters, importers and shippers of overseas cargo definitely do not prefer.

The legislation would require that an increasing share of American firms' cargo bound for and leaving this country be carried in U.S.-built and -manned vessels, starting at 4 percent and rising over 15 years to 20 percent. Currently, 2 percent of such cargo is carried by U.S.-flag vessels.

Proponents say the measure would create shipbuilding jobs and is needed if the country is to have enough merchant ships in defense emergencies.

Opponents say more jobs would be lost than created because higher costs of building and operating vessels would gravely cut into exports. They also see an inflationary effect on imports and an adverse effect on foreign relations.

They add that use of some of the many U.S.-owned ships operating under foreign flags has easily met past defense needs and could do so in the future. And, they say, Congress could take other steps to bolster U.S. shipbuilding capacity if necessary.

Should more cargo have to be shipped in U.S.-built vessels?

You can now respond easily to this monthly poll on major business issues by using the attached postage-paid card.

Verdicts on Natural Gas, PAC and Smoking Issues

There were almost 2,000 answers to the Where I Stand questions asked in September: Should all controls on natural gas be ended? Should a lid be placed on PAC contributions to congressional campaigns? Should employers be required to prohibit smoking in the workplace?

On the first question, 80 percent of respondents voted in favor of substituting complete federal decontrol of natural gas for the present complex regulatory system—under which controls have been lifted from a tenth of the nation's gas and will be from another four tenths in 1985 while remaining indefinitely on the rest. Thirteen percent voted no, and 7 percent were undecided.

The vote was comparatively close on the issue of whether to tighten existing legal controls on contributions by political action committees to congressional candidates. Forty-nine percent said yes, 43 percent said no, and 8 percent were undecided.

On the third question, the majority was on the negative side. Fifty-six percent of respondents opposed state or local laws—or court decisions—requiring employers to provide smoking-free environments. Thirty-eight percent favored the idea, and 6 percent were undecided.

Appropriate government decision makers will be informed of the poll's results.

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STRATEGIES FOR SUCCESS

He Made a Market For His Hobby

Fred Bear makes a perfectly awful example of how to start your own business. According to the plethora of "How To" titles on bookstore shelves, a young entrepreneur should turn out a product that fills a need, work long hours and study the market.

Bear never knew all this. Or if he did, he paid no mind.

For one thing, he wanted a business that did not take too much time, so he could go hunting and fishing whenever moved to do so. Second, he reasoned that because he enjoyed his hobby of making bows and arrows, it would also be a satisfying business. And third, when Bear had this entrepreneurial dream (in 1933), he knew there was no market for bows and arrows.

Today, 50 years later, Bear still goes hunting and fishing when he wishes. And he still works at his hobby—making bows and arrows.

And his business? Bear Archery. Nearly 2 million licensed archers in the United States recognize its name as that of the world's largest producer of bows and arrows, some of the finest ever taken into the woods.

"All my life I've done the kind of work I like to do," says Bear, now 81 and still vigorous, lean and square-shouldered. "I understand that many times a hobby that gets to be big business becomes a chore, but this never has for me. I love it. And I'm still here."

"Here" is Gainesville, Fla., a small college town to which Bear Archery moved from Michigan in 1977. The Florida plant, 160,000 square feet, twice the size of what the company left behind in Grayling, Mich., is tucked away in a 35-acre woods. Four days a week, its 340 employes craft 1,200 bows and a like number of arrows.

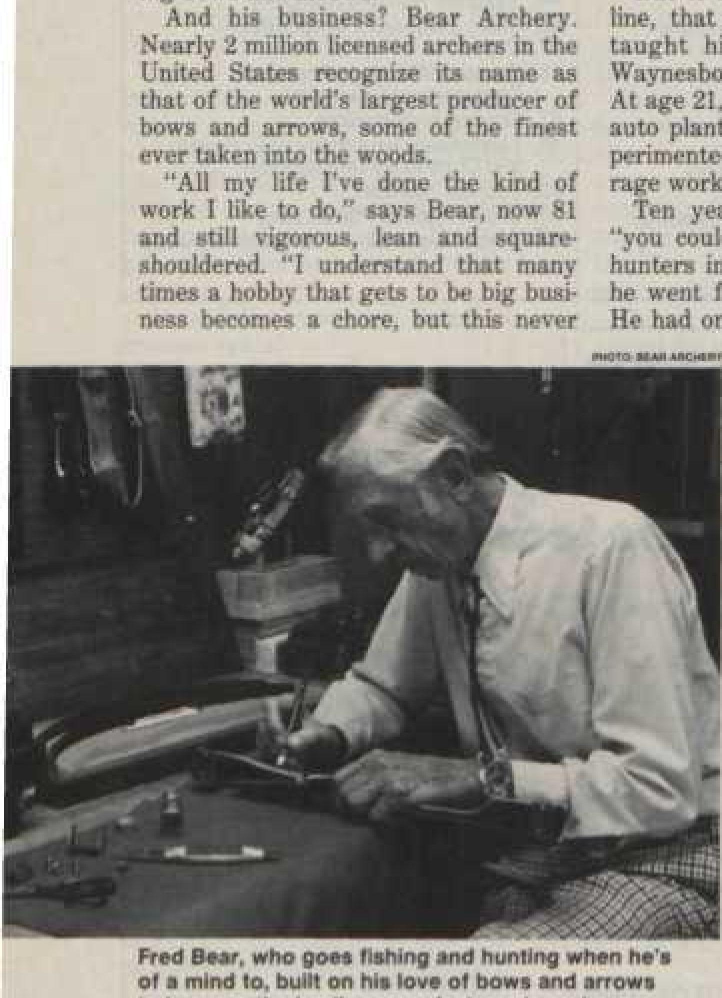
"You wonder where they all go," says Bear, knowing full well that archery tournaments and bow hunting are more popular than ever. Then he observes: "A fellow will let his wife and kids starve if he can get a couple more points in a tournament with a new bow."

Those new bows, if from Bear Archery, cost from $80 to $300. Considering that the firm makes more than a quarter million bows annually, Bear Archery's tightly guarded yearly sales figures must easily top $20 million—twice as much as those of any of the half-dozen competitors.

But it is the sport, not the bottom line, that motivates Bear. His father taught him back in his hometown, Waynesboro, Pa., to love the outdoors. At age 21, he took a job at the Packard auto plant in Detroit. Evenings he experimented with making bows in a garage workshop.

Ten years later, when, says Bear, "you could count the number of bow hunters in Michigan on your fingers," he went full time with Bear Archery. He had only a few hundred dollars, so he incorporated, sold stock to some friends, built a small plant, kept a controlling interest and set out to create a market for his product.

PHOTO: BEAR ARCHERY



Fred Bear, who goes fishing and hunting when he's of a mind to, built on his love of bows and arrows to become the leading manufacturer in archery.

He convinced Michigan legislators to inaugurate a bow and arrow hunting season in two counties, then statewide. Meanwhile, he launched archery clubs, gave demonstrations for civic groups, and organized hunts in locales ranging from equatorial Africa to the polar regions of Alaska. He made 25 archery films, wrote three books, built a museum that houses his big-game kills and in 1972 started the Fred Bear Sports Club. Its more than 30,000 members, in 44 countries, are dedicated to clean air and water, intelligent wildlife management and support of fish and game laws.

All the while, Bear was inventing new equipment and processes—shooting gloves, bows that could be disassembled for easy carrying, use of fiberglass in bows for additional strength.

He does not foresee many additional improvements to today's archery equipment.

"There may be about a 5 percent improvement on the horizon in archery technique, that's all," he says. "We've about reached the apex in arrow velocity—around 245 feet a second."

The last major improvement was the compound bow, which uses a series of pulleys and cables to make drawing the bow easier and to send the arrow out with greater speed.

"When the compound was invented back in the 1970s, we hoped it would go away," says Bear. "We were technical

Outdoing Himself Is Child's Play

Less than four years ago, Jack Pentes, approaching 50, thought he had topped out. His was an enviable but somewhat modest record. The Charlotte, N.C., designer, who started his own business straight out of high school at age 17 ("I was a child businessman," he says), was listed with a good rating in Dun & Bradstreet by the time he was 19. And by the late 1970s, Pentes Design, Inc., was bringing in annual revenues of $500,000—a respectable figure for a service firm that designed projects ranging from signs to restaurants to amusement parks.

However, when Pentes' fiscal year ends next May 31, he expects revenues to be five or six times that much. The firm has tripled its warehouse space, and just last month its offices were moved into a new building.

What happened? Pentes was hired to design marketing materials by the developers of Sesame Place, a Langhorne, Pa., amusement park that opened in 1980. As Pentes watched the park take shape, he was inspired by the play devices created for it by Canadian designer Eric McMillan, a pioneer in soft play equipment—so called because it is mostly made from softer materials than traditional playground devices, in an effort to eliminate injuries.

Pentes returned to Charlotte and told his staff he wanted to go into the play business. He had already detected a movement by fast-food restaurants to install play equipment but had observed that "the industry wasn't responding except to sell what was already on the shelf." That consisted, he says, mostly of the same swings, seesaws and climbers children have used since the turn of the century.

He first developed preliminary designs for soft play "experiences," coming up with an idea he called Play Port. He envisioned an acre full of brightly colored devices made of plastics, foams, nylon and rubber.

The idea might have died an early death but for Marineland of Florida. Marineland managers wanted to implement a Pentes playground design they had shelved because of the oil crisis of the mid-1970s. But Pentes told them he now had something better to offer. They agreed, and the first Play Port was installed at Marineland in 1980.

Designed with an emphasis on safety, Play Ports have since been included in such major theme parks as Wild World in Largo, Md., and Six Flags Over Texas in Dallas. Miniature indoor versions are being installed nationwide in nearly 100 Show Biz Pizza Place restaurants.

And next year the main exhibit area of the Louisiana World Exposition in New Orleans will feature a 6,000-square foot Play Port, along with five smaller "satellite" versions elsewhere on the fairgrounds.

PHOTO: PENTES DESIGN

Safety is a key factor in the soft play equipment Jack Pentes has designed for children. Here he wallows in one of his creations—a "bath" of plastic balls.

In a Play Port youngsters can wallow in a sea of 50,000 plastic balls, climb 1,500 square feet of rope netting, release their pent-up energies on lightweight punching bags called "boppity bags," do the "body bounce" on a 500-square foot bouncing area and enjoy a dozen or so other play elements.

Pentes cheerfully acknowledges being on the leading edge in the play industry. He predicts a greater use of high technology in play equipment and a vast growth of "pay for play" facilities in fast-food outlets and shopping centers. He also sees a chance to revolutionize "antiquated and dangerous" play devices in parks, day care centers and apartment facilities across the country.

Does Pentes, now 52, still feel he has topped out? "I think I can totally eclipse anything I have done in the last 30 years," he says.

adviser on the movie 'Deliverance' and we had the story's author, poet James Dickey, as our house guest. We gave him this hideous-looking compound bow and asked him to try it. He's an accomplished archer, but we figured his poetic viewpoint would have him telling us to get this thing out of his sight.

"He pulled it, studied it and said, 'I want one for myself, one for my wife and one for my boy.' "

Demand for the firm's compound bows, its aluminum-shaft arrows with interchangeable heads, and the dozens of other archery products created in its own research and development department enticed Kidde, Inc., of Clifton, N.J., into making Bear Archery one of its subsidiaries in 1977.

Bear remains chairman, however, and he remains dedicated to hunting and fishing when the spirit moves him. Of late, going up to Alaska for a few weeks has been on his mind.

"I probably won't do any shooting; I enjoy the camp life, the companionship, more," says Bear. "Someone will say, 'There's a caribou out there.' And I say, 'Boys, go get it. I'm going to have another beer.' "

Giving Customers An Extra Motive

Although the restrictions on importing Japanese autos have posed a problem for their makers and distributors, they have meant just another opportunity for Jim Feldman. In view of the limitation on auto sales, the Chicago incentive marketing specialist persuaded Toyota Motor Sales, U.S.A., Inc., to turn its attention to promoting parts and service. And his firm, Feldman Associates, has created a series of campaigns to support the new emphasis.

One program, aimed at getting customers into a dealer's service department, offered premiums like sets of road maps and umbrellas with the purchase of at least $25 worth of service.

Another campaign promoted an expanded line of aftermarket chemicals, such as white-wall cleaner and car wax, by offering premiums to service and parts managers. For example, a service manager could win a trip to Hawaii or some other prize if he earned a certain number of points by running advertisements and increasing sales.

Car buyers are often reluctant to turn to dealers for service, because they believe the dealers' prices are higher, says Feldman. His programs are aimed at helping dealers overcome that reluctance.

"You never see a Mercedes at Joe's garage," he points out. "Mercedes has convinced its customers that to retain the value of their cars and the workmanship that went into them, they

must have work done at factory-authorized places by factory-authorized personnel." And, he adds drolly, "at factory-authorized prices."

But Feldman does more than work with auto companies. He created a road show that toured 60 cities to introduce a curling iron and a hair dryer for Redken Laboratories. And he devised a tie-in promotion in which free samples of Orville Redenbacher Popcorn were offered to customers of McDonald's restaurants. (The test was so successful that a national "roll out" has been shelved; Feldman says it would have required so much popcorn that Redenbacher could not have served its existing retail outlets.)

Others on Feldman's client list of 21 firms include Pizza Hut, Vidal Sassoon, Inc., and 20th Century Fox Video.

Advertising may be designed to get someone to feel or think something, but, Feldman says, "we provide an immediate inducement to act." Incentives range from the free popcorn to such prizes as cash, trips and merchandise—from tennis gear to grandfather clocks. And Feldman's firm provides its clients with one-stop service, handling everything from creating a program to warehousing prize merchandise and making travel arrangements.

Feldman Associates, founded in 1979, is a tail that wags a dog. Back in 1971, Jim Feldman started Advertising and Design Services, Inc., to serve as an in-house agency for a retail camera and electronics store, since sold, that he owned in Champaign, Ill. He started the sales promotion firm to keep its activity separate from his advertising business. Feldman Associates has grown 50 percent annually, and with $10 million in billings projected for this year, he says, it has become "significantly bigger" than ADS.

Feldman credits much of his success to the fact that he shored up a natural creative flair with a background in business education (a master's degree in economics from Kansas State University and a master's in business administration from the University of Illinois). "The greatest sales tool we have is our formal proposal," he says. He explains that the proposals include such elements as payout analyses, legal considerations and methods for evaluation and follow-up. "We bring a tremendous economic and marketing background to our creativity."

PHOTO: MIKE WILLETT

Jim Feldman (center) and his staff coax customers into immediate purchases with "incentive" campaigns for such firms as McDonald's, Toyota and Pizza Hut.

Finding Leaders For The Growth Stage

"Specialists in venture capital executive search." That is how the company brochure describes Knight & Irish Associates, Inc., of New York City.

The notion of a search firm that seeks out candidates to become venture capitalists certainly is an attention-getter. And to hear company founder Joan S. Irish talk about it, that is what it was meant to be. Actually, the firm's real focus, she explains, is finding management for the growth companies that are backed by venture capitalists.

Irish, vice president of her husband's executive search firm, Charles Irish Company, Inc., since 1977, says she has known for a long time that "small companies need management as much as large companies, and they probably need it a lot more."

But the problem is finding a way to reach the small companies.

The way to do it, the Irishes decided, was to start an affiliate company in May, 1982, that would market first to venture capital firms. "Once they know us and we have credibility, we can make them aware of our expertise in finding management for their portfolio companies," says Joan Irish, a former school headmaster, who has an interdisciplinary doctorate emphasizing management

Headhunter Joan Irish scouts executives for young firms backed by venture capitalists.

PHOTO: GARY KIEFFER

from Columbia University. Irish is president and chief executive officer of Knight & Irish, while her husband, who still heads his own firm, is vice president. The "Knight" in the firm's name belongs to management consultant and venture capitalist Harry W. Knight, its chairman.

Knight & Irish searches for executives who can work successfully in what Joan Irish calls "a growth environment."

"Very often, the founding entrepreneur is not the person to take a company through its growth stages," she comments. "He is the guy who can keep founding things. Venture capitalists know this; very often they have to fire the founder of a company." The growth-stage entrepreneur, she continues, is a person who has a strategic plan, follows it and can handle day-to-day operations.

Irish looks for seven characteristics in an entrepreneurial candidate: low need for approval, recognition or other support; high need for achievement; high need for independence; leadership in the sense of being able to develop people and manage a team; high level of energy; good judgment; and integrity. She quotes a successful venture capitalist who said, "The scariest question I have to ask about any would-be entrepreneur is, 'Is he honest?' If he'll lie to his boss, the government or his customers, why wouldn't he lie to me?"

Placements by the firm have included a chief executive officer, marketing and financial staff, the head of a venture capital firm and the president of a small business investment company. Salaries have ranged from $40,000 to $250,000—with the client company paying Irish's firm a retainer equal to one third of the executive's first-year salary.

Knight & Irish's fiscal year ends November 30. "We are shooting for a quarter of a million dollars," says Irish, "and we may make it." □

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Keeping Blood Pressure Down

By Carollyn James

MOST PEOPLE know that high blood pressure—hypertension—is dangerous. It can cause heart attacks, strokes, kidney failure, coma or apoplexy. But what if you are a borderline hypertensive—someone whose blood pressure is not high enough to set off alarms but too high to get good marks from your doctor?

There is not much statistical evidence that mild hypertension itself is life-threatening, but, the doctors say, mild hypertension may become full-fledged high blood pressure if you do not take preventive steps.

Unfortunately, hypertension can be symptomless for up to 20 years; most people who have it do not know it. "Their bodies have gotten used to the high blood pressure," remarks Dr. Harry Kaiser of the National Institutes of Health. So your first line of defense is to have periodic blood pressure tests.

Actually, blood pressure itself is not measured in such tests. What is measured is the veins' elasticity.

Two readings are made during a test. The first, known as the systolic measure, is taken when the heart is beating and thus forcing blood through the veins. The second, taken between heartbeats, when the veins are relaxed, is the diastolic measure. A blood pressure reading of, say, 120 over 80 (a good pressure for a midlife adult) refers to a systolic 120 and a diastolic 80. For most people less than 65 years old, the diastolic measure is the number that gives meaning to the expression high blood pressure. Anything over 90 will probably make your doctor raise an eyebrow.

It is estimated that 20 percent of the adult U.S. population has a diastolic reading over 105 and that about 70 percent of the population suffers from milder hypertension, with diastolic readings of 90 to 105. For persons with readings above 105, who are likely candidates for a stroke or a heart attack, drug therapy is definitely worthwhile. It can be highly effective in controlling blood pressure. There is, however, controversy over how or even whether to treat individuals with mild or borderline hypertension.

CAROLLYN JAMES *is a free-lance science writer based in Washington.*

Many drugs used to combat hypertension cause severe depression, lethargy and sexual dysfunction—and they are expensive. One study of persons with mild or borderline hypertension shows that fewer than two out of 100 benefit at all from prescribed drugs.

Medication is far more effective with full-fledged hypertensives because it can bring their blood pressure down 15 or 20 points, into the mild or even normal range. But it lowers blood pressure in mild cases only 2 or 3 points. Dr. Thomas Pickering of Cornell University Medical Center pointedly questions even the use of diuretics in mild hypertensive therapy. "Should we subject large numbers of persons to long-term treatment with potentially harmful medications," he asks, "when the chances of any one person's deriving benefit from the treatment are small?"

PHOTO GARY KIEFFER

Most people who have hypertension do not know it. Periodic blood pressure tests are a must if the problem is to be identified before it gets out of hand.

Nancy Hendler, a retired science instructor and now a volunteer for treatment in NIH's program for mild and borderline hypertensives, recalls that when she was first treated by a private physician, some of the prescribed drugs "were just awful! Once my husband couldn't find my pulse. And then on another drug, my speech was constantly slurred. People must have thought I was drunk."

Under the NIH program, Hendler is on mild diuretics and is experiencing no such side effects.

The World Health Organization, after reviewing some of the statistics on borderline hypertension, recommends that treatment be more holistic than pharmaceutical—less salt, more exercise, no smoking and, if possible, no stress.

Generally, the better shape the body is in, the better able the body is to control blood pressure. When primitive tribes are studied medically, high blood pressure is found to be virtually nonexistent. The researchers inevitably conclude that is because the tribespeople's lives are free of stress, low in salt and high in exercise.

DESPITE SUCH studies, hypertension remains a disease of unknown origin. Stress, salt and sloth aggravate hypertension, but they do not cause it.

"Not everyone is going to get high blood pressure," concedes Dr. Lot Page of Tufts University, "no matter what they do."

The corporate workaholic with two teen-agers at home is no more likely a candidate than is the farmer in Iowa. Some think the disease is genetic. Others think it is environmental.

Hypertension is, as Page observes, a disease that "is easier to prevent than to treat," and many of the steps that can prevent it have already been indicated. Salt should be limited to less than a teaspoon a day. If a person weighs more than his or her ideal weight (usually the weight of early adulthood), weight should be reduced and maintained.

Exercise should become a natural part of living, not a strenuous part of it; walking is still the exercise most doctors recommend. Smoking is out.

If we do not take measures to prevent hypertension, most of us will become mildly hypertensive. And then we will have to do all those things we should have been doing all along. □

CONGRESSIONAL ALERT

Issues That Could Affect *Your* Business

... and what you can do about them

This NATION'S BUSINESS feature advises readers how they can make their views known on important pending legislation. Correspondence to members and committees of Congress can be sent either c/o U.S. Senate, Washington, D.C. 20510 or U.S. House of Representatives, Washington, D.C. 20515.

Issue	Potential Impact On Business	Contact And Business Message
Taxes	Congressional actions to raise taxes to pay for bloated federal spending programs could jeopardize the nation's economic recovery, raise unemployment.	Members of the House and Senate: Vote against any new taxing schemes, oppose all attempts to tax fringe benefits; maintain indexing provisions.
Budget/Appropriations	Interest rates, partially determined by federal borrowing, will be hard hit if Congress wallows in election-year spending excesses.	Members of the House and Senate: Reduce the level of federal spending, support presidential vetoes, cut continuing resolution to a minimum.
Natural Gas Deregulation	Plentiful supplies and a fair pricing structure would be results of total natural gas deregulation.	Senators, House Energy and Commerce Committee: Vote for total deregulation of natural gas supplies and prices by a specific date.
International Monetary Fund	The economic recovery will be enhanced as IMF-backed loans to foreign nations translate into purchases of American goods and services.	Members of the House and Senate: Support full funding for IMF as a mechanism to reduce unemployment, boost export sales, broaden U.S. recovery.
Hazardous Waste	Legislation would increase the paper work burden on small business, increase overhead; benefits to the environment would be few.	Senators: Require identical reporting and regulating trigger at 100 kg per month for generators of small quantities of hazardous waste.
Clean Water Act	Pretreatment requirements in current law have been impossible to implement; failure to correct the problem means delayed compliance, increased business costs.	Senators: Allow municipalities to develop pretreatment programs tailored to local needs; reduce administrative and technical burdens with little bearing on water quality.
Bankruptcy Reform	Enactment would make it more difficult for consumers with adequate future incomes to escape payment of debts; those able to pay would face increased pressure to do so.	Members of the House: Require future income provision; oppose attempts to grant special treatment to unionized workers.
Domestic Content	Attempt to discourage auto imports would result in job losses nationwide because of foreign retaliation.	Members of the House: Oppose any congressional action that would restrict the free flow of trade.

What CEOs Want In Federal Budgeting

There is a strong fiscal-policy signal for both Congress and the administration in the latest Heller-Roper survey of small business executives (page 25).

Managers were asked where they placed blame for the failure to curb sharp increases in federal spending. Congress emerged as the principal culprit, with 48 percent of those surveyed citing the lawmakers as being primarily responsible for spending growth.

At the same time, 38 percent said the problem had been created by Congress and the administration jointly. Because of that finding, the White House can't take too much comfort in the fact that only 7 percent of the executives surveyed blamed it alone for spending increases.

There was strong sentiment that past as well as present Congresses and administrations are responsible for federal fiscal difficulties. The solutions, however, must come from the incumbents. The executives made it clear that although they expect Congress to take the initiative, it must be a joint undertaking, with full Reagan administration participation.

Congress and the administration should put aside partisan bickering and join in an effective effort to curb federal spending growth.

Small business executives, like all concerned taxpayers, want positive results that can come only from mature cooperation at the top levels of government.

. . . And Here Is One Way To Do It

One important step that could help achieve fiscal discipline in the federal government would be to give the President line-item veto authority on appropriations bills.

Under the present system, the Chief Executive can accept or reject a spending bill *in toto*. He frequently faces the dilemma of either signing a bill that includes objectionable spending proposals or exercising a veto that denies funds for critical government activities.

For example, Congress incorporates the budgets of the State, Labor and Justice Departments into a single appropriations bill. Thus, if a President thinks an appropriation for public service jobs is too high, he can veto the bill only if he is willing to cut off funds to the Federal Bureau of Investigation.

Congress exploits that system. Narrow-interest spending proposals that could not stand on their own are attached to major appropriations bills on the assumption the President cannot burn down the barn to get the rats out.

A line-item veto power would allow him to reject specific allocations within a spending bill.

Giving the President that veto authority would require an amendment to the Constitution. Congress should begin the amendment process immediately, and the administration should give the effort its full support.

Organized Labor's Kingmaking Gamble

The AFL-CIO's endorsement of Walter F. Mondale for President 10 months before the Democratic Party chooses a nominee involves unprecedented opportunity and unprecedented risk for the labor federation's leadership.

If Mondale does become President, those leaders' ties to the White House will be closer than they ever have been. The union bigwigs could enjoy immeasurable influence.

But what if Mondale is not nominated? How does the victor react to the importunings of would-be kingmakers who had gone all out to defeat him? What if Mondale wins the nomination but loses the election and his unusually close ties to organized labor are perceived as a factor in his defeat? What happens then to the ambitious union plans to influence the presidential selection process from the outset?

Those are questions that will be answered as the 1984 campaign unfolds, and some of the answers may surprise organized labor in its role as a would-be maker of Presidents. □

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